FUNDING STATEMENT (CLEAN)

Drax Bioenergy with Carbon Capture and Storage

The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 – 5(2)(h)

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1. INTRODUCTION

1.1.1. This funding statement (Statement) relates to an application by Drax Power Limited ('Drax' or the 'Applicant') to the Secretary of State ('SoS') on 23 May 2022 under the Planning Act 2008 (as amended) (PA2008) to support an Application for a Development Consent Order ('DCO') (the 'Application') to install Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station in North Yorkshire (the 'Proposed Scheme').

1.1.2. The Application is submitted to the SoS pursuant to section 37 of the PA2008. This statement has been prepared in accordance with the requirements provided for by section 37(3)(d) of the PA2008 and regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedures) Regulations 2009 (the '2009 Regulations'), and with relevant guidance issued by the Department for Communities and Local Government.

1.1.3. The Application seeks development consent for the Proposed Scheme to be constructed.

1.1.4. The DCO Application was accepted for examination by PINS on 20 June 2022. The Examination commenced in Q1 2023.

1.1.5. This Statement has been submitted as it will be necessary to acquire land and rights over land in order to construct the Proposed Scheme and therefore powers of compulsory acquisition have been sought in the Order. This Statement explains how the shareholders of the Applicant and their parent companies expect that the construction of the Proposed Scheme and, as necessary, the acquisition compulsorily of land and rights over land as are required in connection with the Proposed Scheme and authorised by the Order will be funded.

1.1.6. This Statement forms part of a suite of documents accompanying the Application, submitted in accordance with section 37 of the PA2008 and regulation 5(2)(h) of the 2009 Regulations, and should be read together with those documents, in particular the **Statement of Reasons** (REP2-012) which justifies the powers of compulsory acquisition that are sought.

1.1.7. A **Glossary** (document reference 1.7, revision 02) has been submitted as a standalone document with the Application which incorporates all terms used within submission documents.

1.1.8. A Funding Statement - Addendum in Relation to the Proposed Changes (AS-064) was submitted as part of a Proposed Changes application on 23 December 2022, and was accepted into the Examination at the discretion of the Examining Authority ('ExA').

2. SUMMARY OF LAND ACQUISITION POSITION

2.1.1. The delivery of the Proposed Scheme requires the acquisition of new rights (including the creation of rights and the imposition of restrictions) in land, and the temporary possession of land.

2.1.2. A summary of the status of negotiations with landowners is set out in the **Schedule of Negotiations and Powers Sought** (REP3-005).

2.1.3. Should any claims for blight arise because of the Application, the Applicant has sufficient funds to meet the cost of acquiring these interests at whatever stage they are served. However, the Applicant has not identified any interests which it considers could be eligible to serve a blight notice.

3. CORPORATE STRUCTURE OF THE DRAX GROUP

3.1.1. Drax Power Limited (Company number 04883589) is the Applicant for this DCO Application. The Applicant is registered in England and is part of the Drax corporate group of companies (the Drax Group). The ultimate parent of the Drax Group and the indirect parent of the Applicant is Drax Group plc (DG plc), incorporated in England and Wales with number 05562053. DG plc is listed on the Main Market of the London Stock Exchange under stock ticker DRX, and is part of the FTSE 250 Index.

3.1.2. The corporate structure of the Drax Group is illustrated in **Appendix A** of this Statement.

3.1.3. Drax Corporate Limited, direct parent of Drax Smart Generation Holdco Limited and the intermediate holding company over all the assets and investments of DG plc, has no independent revenue-generating business operations or significant assets of its own but does provide services to the Group including intra group funding and Treasury services. It is also the borrower of the Group's £300 m Revolving Credit Facility, which has an investment grade BBB- credit rating by S&P and Fitch.

3.1.4. DG plc has a number of rated entities, including Drax Group Holdings Limited and Drax Power Limited, who currently have a corporate rating of BB+ by S&P and Fitch and BBB by DBRS.

3.1.5. Drax Finco plc is the issuer of the group's high yield bonds with an aggregate outstanding quantum of approximately £600m, which are rated BB+ by S&P and Fitch. The proceeds for these loans were ultimately transferred to Drax Corporate Limited for the use of the wider group, including the Applicant.

3.1.6. Audited consolidated accounts up to 31 December 2021 for DG plc stated total net assets in excess of £1.3bn. The audited 2021 accounts are included in **Appendix B** of this Statement. The recently audited 2022 accounts are included in **Appendix C** of this Statement to provide the most up to date information available.

3.1.7. Audited consolidated accounts up to 31 December 2022 for DG plc stated total net assets in excess of £1.3bn. The audited 2022 accounts are included in **Appendix C** of this Statement, as requested by the ExA during the CAH1 Hearing on 23 March 2023.

4. PROJECT COST

4.1.1. The current cost estimate for the development of the Proposed Scheme is circa £1.5 bn to £2 bn. This cost estimate includes construction costs, preparation costs, supervision costs land acquisition costs (including compensation payable in respect of any compulsory acquisition, anticipated at c. £162 - 165 k, when accounting in particular for Work Nos 7 and 8) and all other aspects of the development of the Proposed Scheme including equipment purchase, construction, installation, commissioning, ancillary work to the existing Power Station assets to enable the Proposed Scheme and connection to the carbon dioxide transportation and storage infrastructure.

5. PROJECT FUNDING

5.1.1. We are highly confident that access to financial markets through Drax Corporate Limited and Drax Finco plc gives the Applicant the ability to secure any financing required to fund the works to be authorised by the DCO. The Applicant and the Wider Drax Group has access to diverse funding options through existing relationships with lenders and we are confident, based on our project track record, that we can access the required funds on appropriate terms. In particular:

5.1.2. Drax Group has a strong reputation in the public and private debt markets and infrastructure funds and highly experienced finance and treasury teams with a strong track record of structuring and managing covenants required in financing document and the Applicant is working with a banking adviser with extensive experience in global infrastructure projects to assess financing options for the Proposed Scheme, bringing together large capital providers to drive an efficient capital structure.

5.1.3. Project development costs sustained prior to the start of construction will be funded from the cash reserves of the Group. Construction costs will be funded from a combination of these cash reserves and debt finance depending on market conditions at the time of Drax plc's financial investment decision, taking into account any subsidy contract afforded to the Applicant in furtherance of the Proposed Scheme and the acceptable development of a wider BECCS business model by the UK Government. Ongoing operating costs will be met through ongoing business operations which are cash generative, and which would include, inter alia, revenue of the Proposed Scheme.

5.1.4. The Applicant, via DG plc, has access to appropriate funding to carry out the Proposed Scheme and meet any compensation requirements.

6. FUNDING FOR LAND ACQUISITION AND BLIGHT

6.1.1. The current cost estimate (see paragraph 5.1.1 above) includes an amount to cover the total cost of the payment of compensation for the compulsory acquisition included in the Order and required for the Proposed Scheme.

6.1.2. Should any claims for blight arise as a consequence of the Application, Drax has sufficient funds to meet the cost of acquiring these interests at whatever stage they are served. However, Drax has not identified any interests in the Order land who it considers could be eligible to serve a blight notice.

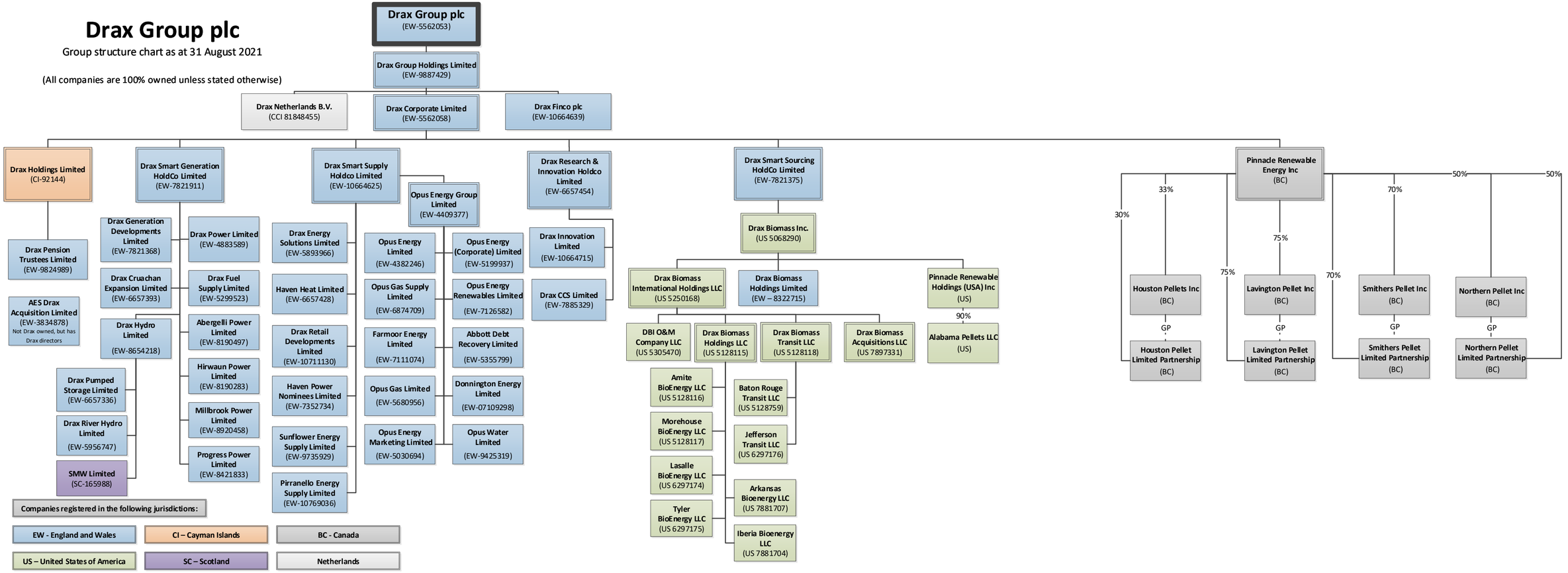
APPENDICES

APPENDIX A – CORPORATE STRUCTURE - FUNDING STATEMENT

Drax Group plc

Group structure chart as at 31 August 2021

(All companies are 100% owned unless stated otherwise)



APPENDIX B – ACCOUNTS (2021) - FUNDING STATEMENT

Innovating for a positive future

Drax Group plc Annual report and accounts 2021

drax

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future

Our ambition

Our ambition is to become carbon negative by 2030.

Being carbon negative means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.

Read more in our business model on **page 6**

See more online

2021 highlights

Adjusted revenue[1]

£5,174m
(2020: £4,235m)

Total revenue

£5,088m
(2020: £4,245m)

Adjusted gross profit[1]

£843m
(2020: £800m)

Total gross profit

£891m
(2020: £726m)

Percentage of total UK renewable electricity generated

12%
(2020: 11%)

Total recordable incident rate

0.22
(2020: 0.29)

Employee engagement score

79%
(2020: 82%)

Group carbon intensity
(tCO_2e/GWh)

78 tCO_2e/GWh
(2020: 164 tCO_2e/GWh)

Gender diversity
(Total workforce – female)

30%
(2020: 31.5%)

Gender diversity
(Board – female)

44.4%
(2020: 28.6%)

(1) We calculate Adjusted financial performance measures, which are Drax specific and exclude income statement volatility from derivative financial instruments and the impact of exceptional items, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully on page 202, with a reconciliation to their statutory equivalents in note 2.7 to the consolidated financial statements on page 203. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 31 January 2021, the Group completed the sale of its portfolio of CCGT assets to VPI Generation Limited. Because of this transaction, the results of the CCGT portfolio for 2020 and 2021 have been classified as discontinued operations in the

Adjusted EBITDA from continuing and discontinued operations[1]

£398m

(2020: £412m)

Total operating (loss)/profit [1]

£197m

(2020: £(156)m)

Net debt[2]

£1,044m

(2020: £776m)

Dividend per share

18.8p

(2020: 17.1p)

Wood pellets produced

3.1Mt

(2020: 1.5Mt)

Renewable generation (%)
UK's largest source of renewable electricity

93.8%

(2020: 77%)

Group carbon emissions, scope 1 & 2 ($ktCO_2e$)

1,255 $ktCO_2e$

(2020: 3,080 $ktCO_2e$)

Group carbon emissions, scope 3 ($ktCO_2e$)

3,121 $ktCO_2e$

(2020: 3,135 $ktCO_2e$)

consolidated financial statements. References to financial performance measures throughout this annual report refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 5.4 to the consolidated financial statements on page 235.

(2) We define net debt as borrowings less cash and cash equivalents. A reconciliation of net debt is provided on page 223. Borrowings is defined as per the Group's balance sheet on page 185 and does not include lease liabilities, pension obligations or other financial liabilities.

Our strategic objectives

Pellet Production

To be a global leader in sustainable biomass pellets

Pellet sales, self-supply, cost reduction, fibre sourcing and technology

Negative Emissions

To be a global leader in negative emissions

Development of projects in UK and internationally. Carbon negative by 2030

Flexible, Renewable Power

To be a leader in UK dispatchable, renewable power

Flexible renewable power – biomass, hydro, pumped storage. Renewable power and energy services to strategic customers

All underpinned by safety, sustainability and cost reduction

Our values

Our values are driven by our culture, fundamental to which is acting with integrity – and what we call "doing the right thing".

We care about what matters

We believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. We're committed to creating a business model where financial performance, value creation and sustainability outcomes are aligned.

We're a can-do kind of place

We have a diverse, inclusive culture where the continual exchange of ideas and perspectives leads to great things. The conversion of our coal-fired power plant to biomass and the development of our Electric Vehicles service was due to the ingenuity of our people.

We see things differently

We look at the world and see possibilities in how we can help to solve the climate crisis. We seek new ways of doing things. We repurpose existing assets (such as the coal to biomass conversion), use our expertise and new technologies to innovate (such as bioenergy with carbon capture and storage (BECCS) or alternative fuels), and embrace opportunities to learn so we can become even better.

We listen carefully

We listen to our colleagues, communities, customers and other stakeholders, working with them to better understand their needs, and deliver the best possible outcomes. Our new ways of working, to more flexibly support colleagues, are a direct result of colleague feedback.

We do what we say we'll do

We are delivering on our purpose – to enable a zero carbon, lower cost energy future – and we believe we're a world leader in sustainable biomass and BECCS.

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Market context

Our role in delivering clean power, tackling climate change, promoting the UK's socio-economic growth, and global leadership ambition through negative emissions

Decarbonisation, electrification, the role of negative carbon emissions and the UK's global role

2021 was a tumultuous year for the global economy. There were widely reported shortages and supply chain issues across multiple sectors, mostly caused by a combination of disruption from both Covid-19 and, in the UK, from Brexit.

This issue did not detract from the UK Government's focus on decarbonisation, both domestically and globally. The Government's Net Zero Strategy, published in October 2021, shortly before COP26, contained many commitments to help the UK meet the 2050 Net Zero target, as well as interim carbon targets. The most notable of these was the announcement that by 2035 the UK would fully decarbonise its power sector, and a commitment to support greenhouse gas removal technologies, such as bioenergy with carbon capture and storage (BECCS), to deliver at least 23Mt of negative emissions. By way of illustration, realising this scale of negative emissions would be the equivalent of six Drax Power Station biomass units fitted with BECCS.

Net zero

The Government's Net Zero Strategy outlines a pathway to reaching net zero and includes tough targets both in the medium and long-term. The next steps for the Government include ensuring that targets are backed-up by robust policy to ensure that industry can deliver what is required. COP26 presented a clear platform for countries to outline their strategies and targets to address their contribution to climate change. If achieved, the targets and commitments would place the world on a trajectory towards limiting the worst effects of climate change.

At COP26, and after months of negotiations, policymakers from 197 countries struck an agreement aimed at strengthening the global fight against climate change. Despite its shortfalls, the deal establishes a consensus that all countries need to do more to fight climate change and sets up better rules on transparency to hold them accountable. Above all, it's the first time the need to draw down fossil fuels is explicitly mentioned in a global climate agreement. Drax attended COP26 where we showcased our commitment to tackling climate change, and the critical role that biomass and BECCS will play in this transition was well recognised by key global stakeholders and Government.

Bioenergy with carbon capture and storage (BECCS)

The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050, identifying a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS.

Separately, the UK Government published its Net Zero Strategy and Biomass Policy Statement reaffirming the established international scientific consensus that sustainable biomass is renewable and will play a critical role in helping the UK achieve its climate targets. The Net Zero Strategy set a new Government ambition for at least 5Mt p.a. of negative emissions from BECCS and Direct Air Capture by 2030; 23Mt p.a. by 2035; and up to 81Mt p.a. by 2050. The reports commit the Government to the development of a financial model to support BECCS to meet these requirements.

Drax impact

The East Coast Cluster initiative was selected as one of the UK's first carbon capture and storage clusters in the UK. This is the first step towards ensuring that the CO_2 transportation and storage infrastructure will be in place to safely take and store the CO_2 captured by the BECCS project. Subject to the right regulatory and investment framework, We plan to transform Drax Power Station into one of the world's leading carbon capture projects, using BECCS to permanently remove 8Mt of CO_2 emissions from the atmosphere each year by 2030.

The project is well developed, the technology is proven and an investment decision could be taken in 2024, with a first BECCS unit operational in 2027 and a second in 2030, We aim to complement this innovation with a new target to deliver 4Mt of negative CO_2 emissions p.a. from new-build BECCS outside of the UK by 2030, and are currently developing models for North American and European markets.

Energy market

UK and international power prices increased significantly in 2021, reflecting higher wholesale gas prices driven by increased Asian demand and uncertainty in supplies from Russia, as well as rising carbon prices. Added to this was the growing cost of managing increased levels of intermittent renewables (such as wind and solar) on the system, and interconnector reliability issues – whereby the UK imports its power from continental Europe.

With a return to economic growth following the impact in 2020 of the Covid-19 pandemic, 2021 saw a significant increase in demand for ocean freight, adding pressure to supply chains and a significant rise in market prices. In contrast, biomass delivered to Drax Power Station is typically procured under long-term contracts offering more price stability.

Drax impact

Despite global supply chain problems, our own global supply chain for pellets remained resilient. Due to the Group's active and long-term hedging of freight costs, there has been no material impact associated with higher market prices for ocean freight. The Group uses long-term contracts to hedge its freight exposure on biomass for its Generation business and is taking steps to optimise freight requirements between production centres, in the US southeast and Western Canada, and markets in Asia and Europe.

The reliable, dispatchable power we generate is forward sold up to two years in advance, so we have not been a significant beneficiary of higher power prices in 2021, helping to keep down the cost for the consumer.

Biomass

The role of sustainable biomass is increasingly recognised by policy makers in Europe, North America and Asia as a way to deliver rapid large-scale decarbonisation, as well as the potential for enabling negative emissions.

Drax impact

Drax is a major producer, supplier and user of sustainable biomass, active in all areas of the supply chain with long-term relationships and almost 20 years' experience in biomass operations. The Group's innovation in coal-to-biomass engineering, supply chain management, together with the development of a leading position in negative emissions, can be deployed alongside our large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships. We aim to double sales of biomass to third parties to 4Mt p.a. by 2030, developing our market presence in Asia and Europe, facilitated by creating new business development teams in Tokyo and London.

Dispatchable, renewable generation

While the UK has not recently faced a genuine failure of security of supply, the UK Government must continue to ensure a diverse range of both low carbon and dispatchable technologies are adopted. The Smart Systems and Flexibility Plan, published in summer 2021, highlighted the significant barriers to deployment faced by Large-Scale Long-Duration Storage technologies, such as pumped storage hydro. Measures to address these barriers could include the introduction of a revenue stabilisation mechanism, which would enable investment in these technologies. The Government also issued a call for evidence on better aligning the Capacity Market with net zero and gradually phasing out Capacity Market support for high carbon technologies. Biomass, as a low carbon and flexible technology, is well placed to be supported via the Capacity Market following the end of the current regime of subsidies for biomass in 2027.

Drax impact

Drax is the UK's largest source of renewable power by output and our portfolio of biomass, pumped storage and hydro offers the dispatchable power the UK needs to support further deployment of intermittent renewables. Our continued focus on delivering BECCS and the development of new pumped storage hydro is well placed to support decarbonisation and help ensure security of supply.

Biomass acceptability

Global government support for biomass and BECCS remains strong. Both the EU and the UK Government reaffirmed support for the role of biomass in the Green Deal and Biomass Policy Statement respectively. US President Joe Biden's long-term climate strategy recognises biomass as a key component to decarbonising the US.

Drax impact

We continue to engage with global policymakers on the role of biomass and BECCS, and we will continue to promote the role of sustainable biomass in helping the UK meet its net zero targets. Our biomass sourcing and audit policies go beyond compliance. We take great care to only source from sustainable sources, and we maintain a full chain of custody throughout our supply chain, to ensure we meet certification standards. We conduct independent audits of suppliers and our own supply chain.

At a glance

Drax is the second largest sustainable biomass producer globally, and the UK's largest source of renewable power by output. We are progressing options for bioenergy with carbon capture and storage (BECCS).

Our integrated flexible and renewable value chain...

Pellet Production

Our pellets are manufactured from forestry and agricultural by-products and residues. They provide a sustainable, low carbon fuel source that can be safely and efficiently delivered through our global supply chain. The pellets are produced to best practice sustainability standards. Based in the US south and in Western Canada, we have 17 operational and development sites with nameplate capacity of around 5Mt once expansions are complete.

We have US$4.5bn of long-term contracted sales to third parties across Asia and Europe. Our Generation business also uses these pellets to make flexible, renewable electricity for the UK.

Employees
616

Adjusted EBITDA
£86m
(2020: £52m)

Pellets produced
3.1Mt
(2020: 1.5Mt)

Production cost
$143/t
(2020: $153/t)

Generation

Our portfolio of flexible, low-carbon and renewable UK power assets – biomass, hydro and pumped storage generation – provides renewable, dispatchable power and system support services to the electricity grid.

We are the UK's largest source of renewable power by output, and Drax Power Station is the UK's largest single source of renewable electricity by output. Our portfolio provides long-term earnings stability and opportunities to optimise returns from the transition to a low-carbon economy.

We are developing options for BECCS at Drax Power Station and exploring options for international new-build BECCS.

Employees
692

Adjusted EBITDA[1]
(including discontinued operations)
£372m
(2020: £446m)

(1) Includes £20m from discontinued operations

% renewable
93.8%
(2020: 77%)

Percentage of total UK renewable electricity generated
12%
(2020: 11%)

Customers

Our Customers business is principally focused on renewable electricity sales to industrial and corporate customers.

The business also offers non-generation system support and energy management services, in addition to providing a route to market for many smaller embedded renewable generators.

Employees
835

Adjusted EBITDA
£6m
(2020: £(39)m)

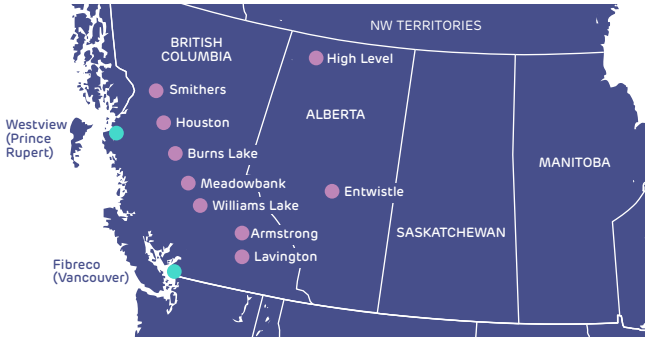
Business unit breakdown

Revenue

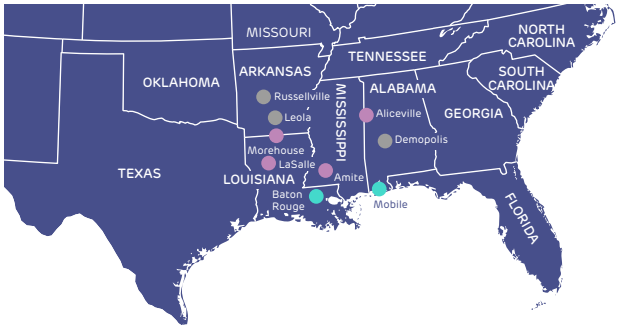
Group EBITDA

Where we operate

Canada



USA



- Ports
- Developments
- Operational Plants

17 operational and development sites, with nameplate capacity of around 5Mt once expansions are complete.

Four deep water ports, accessing Asian and European markets.

Best practice sustainability standards for pellet production.

UK

- Pumped storage generation
- Biomass generation
- Hydro generation
- Biomass from waste
- B2B renewables supply and services
- Corporate offices

Flexible, renewable power generation – biomass, hydro and pumped storage – and supply to British industry.

Development of negative emissions technology – BECCS.

Drax completes acquisition of Pinnacle Renewable Energy, Inc.

The acquisition positions Drax as the world's leading sustainable biomass generation and supply business. It transforms Drax into an international business, trading bioenergy from the North American continent to Europe and Asia, and positions the enlarged Group to take advantage of global growth opportunities, with the market for biomass pellets for renewable generation in Europe and Asia expected to grow significantly.

Find out more on **page 12**

Our business model

A leading UK renewable energy company with global growth opportunities aligned to net zero targets

Our business model and strategy address key trends in global energy

- The increasing demand for electricity and the need for renewable energy
- The need to decarbonise and the importance of negative emissions
- The need for dispatchable generation to enable increased reliance on intermittent renewables

Our strategic pillars

- To be a global leader in sustainable biomass pellets
- To be a global leader in negative emissions
- To be a leader in UK dispatchable, renewable generation

Our integrated flexible and renewable value chain...

Sustainable biomass pellets

Drax believes that the global market for sustainable biomass will grow significantly, creating opportunities for sales to third parties, BECCS, generation, and other long-term uses of biomass. Delivery of these opportunities is supported by the expansion of the Group's biomass pellet production capacity.

The Group has 17 operational and development sites with nameplate capacity of around 5Mt p.a. once expansions are complete. Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the development of over 3Mt p.a. of new biomass pellet production capacity.

Underpinned by this expanded production capacity, Drax aims to double sales of biomass to third parties to 4Mt p.a. by 2030, developing its market presence in Asia and Europe.

Pellet production capacity

c.5Mt

(2020: 1.5Mt)

Production cost

$143/t

(2020: $151/t)

Negative emissions

Post-combustion removal of carbon from the atmosphere (such as BECCS) and afforestation (planting new trees in new areas) are recognised as important sources of negative emissions – removing CO_2 from the atmosphere[1].

Building on its biomass expertise, Drax is developing options for BECCS.

Subject to the right regulatory environment, Drax plans to transform Drax Power Station into one of the world's leading carbon capture projects using BECCS to permanently remove 8Mt of CO_2 emissions from the atmosphere each year by 2030. The project is well developed, the technology is proven, and an investment decision could be taken in 2024, with the first BECCS unit operational in 2027 and a second in 2030, subject to the right investment framework.

The Group aims to build on this innovation with a new target to deliver 4Mt of negative CO_2 emissions p.a. from new-build BECCS outside of the UK by 2030.

Carbon negative company by 2030

Targeting 12Mt of negative emissions globally by 2030

Dispatchable, renewable generation

Drax Power Station is the UK's largest source of renewable power by output and the largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

Drax is also developing an option for new pumped storage – Cruachan II – which could take a final investment decision in 2024 and be operational by 2030, providing an additional 600MW of dispatchable long-duration storage to the power system.

% renewable

93.8%

(2020: 77%)

Capacity

2.6GW biomass

0.6GW pumped storage and hydro

Compelling competitive advantages

- Geographically diversified biomass supply chain with opportunities for growth, innovation and cost reduction
- Development of large-scale negative emissions technology, which positions Drax as a world-leading carbon negative company
- UK's largest source of renewable power by output
- A leading provider of dispatchable UK generation, offering the flexibility that other renewables (such as wind and solar) cannot
- All underpinned by a culture of safety, sustainability and cost reduction

(1) The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050, identifying a requirement of between 2bn and 7bn tonnes of negative emissions globally from BECCS.

Creating value for stakeholders

We engage with a broad range of stakeholders, including: shareholders; our workforce; local communities, schools and colleges; governments; network operators and regulators; customers and suppliers; and non-governmental organisations. You can read more about our stakeholders, together with our section 172 Statement, on pages 34 to 41.

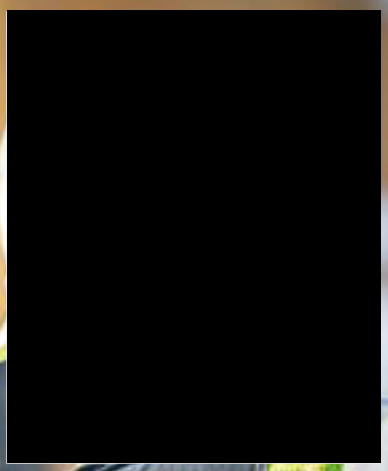
- Global growth opportunities aligned to net zero targets
- Strong financial position, delivering high quality earnings; a sustainable and growing dividend; and a strong balance sheet
- Global leadership in negative emissions technologies
- 95% reduction in generation emissions since 2012 and carbon negative by 2030
- Major contribution towards UK climate targets
- Sustainable development framework and robust biomass sourcing and audit policies
- Giving customers control of their energy
- Investment in our communities in UK, US and Canada
- Commitment to safe and sustainable operations
- Commitment to diversity and inclusion, creating a safe and engaging culture where colleagues feel valued and respected

Sustainable Development Goals

We do what we say we'll do

We are delivering on our purpose to enable a zero carbon, lower cost energy future, creating robust plans and making the investments necessary to help us achieve our aims.

"Safety is our top priority and at the heart of everything we do."



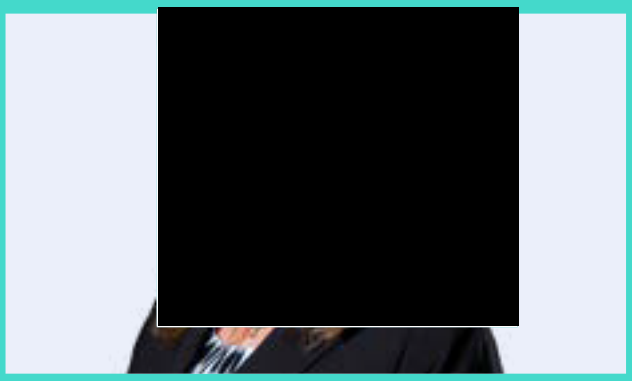
At Drax, safety is our top priority and at the heart of everything we do. We all have a responsibility to ensure the health, safety, and wellbeing of our people, assets and the environment. And to ensure that everyone – regardless of location or role – goes home at the end of every day, safe and well.

That's why our teams have been hard at work behind the scenes to look at site-by-site safety procedures, identify best practice and any areas where we could do better.

We're creating a new Integrated Management System, bringing best-in-class processes to all our North American sites.

We want to raise the bar when it comes to safety and deliver on our OneSafeDrax vision.

Amber Bouska
VP HSE, North America



Percentage of total UK renewable electricity generation output (2021)

12%

Total recordable incident rate

0.22

In this section

Chair's statement

Philip Cox
Chair

Find out more on **pages 10 to 11**

CEO Review

Will Gardiner
CEO

Find out more on **pages 12 to 16**

KPIs

Find out more on **pages 20 to 21**

CFO Review

Andy Skelton
Chief Financial Officer

Find out more on **pages 22 to 29**

Chair's statement

Philip Cox CBE, Chair

2021 was a transformational year for the Group – driven by our purpose to enable a zero carbon, lower cost energy future, and our ambition to be a carbon negative company by 2030.

The Group aims to realise its purpose and ambition through three strategic objectives – to be a global leader in sustainable biomass pellets, to be a global leader in negative emissions, and to be a leader in UK dispatchable, renewable power. These objectives are closely aligned with global energy policies, which increasingly recognise the unique role that biomass can play in the fight against climate change.

Since 2012, we have reduced our carbon emissions from power generation by over 95%, principally reflecting our long-term investment in sustainable biomass. More recently, in January 2021 we completed the sale of our CCGT gas assets, and in March 2021 ended commercial coal generation, further reducing our carbon emissions. Beyond this reduction, we have continued to progress our ambition to become a carbon negative company by developing opportunities for bioenergy with carbon capture and storage (BECCS) in the UK and internationally.

With the right policy support in place in the UK and internationally, we believe this proven carbon removal technology could be used globally to deliver negative emissions. Through these activities, we expect to play a major role in delivering the UK's legally binding objective to achieve net zero carbon emissions by 2050 and support global efforts to reduce carbon emissions.

We believe sustainable biomass has a long-term role to play in the UK and global energy markets, both as a dispatchable and sustainable source of renewable energy, and as a means of delivering negative carbon emissions. Our biomass supply chain strategy has continued to progress, with the acquisition of Pinnacle Renewable Energy Inc (Pinnacle) in April 2021 positioning Drax as the world's leading sustainable biomass generation and supply business.

Operations

In North America, alongside the process of integrating Pinnacle, our Pellet Production business managed the impacts of summer wildfires, heavy rainfall and flooding in Canada, leading to some disruption to rail movements and restricted exports. While managing these issues across our enlarged and diversified supply chain, we have continued commissioning new capacity in the US southeast and further reduced production costs across the portfolio.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of renewable electricity. In 2021, the Group was once again the largest source of renewable electricity by output in the UK, providing 12% of the total from its biomass and hydro generation assets.

Investment case

- Long-term global growth opportunities align with net zero strategies
- Differentiated position with operations across the biomass value chain
- >95% reduction in generation carbon emissions since 2012
- High-quality, strategic asset base
- Strong operational and financial performance
- Clear capital allocation policy

Find out more in the CEO's review on **page 12**

Our Customers business, which supplies electricity and gas to businesses in the UK, has continued its recovery from the impact of Covid-19, which was principally associated with its small and medium-sized enterprise (SME) business.

Results and dividend

Adjusted EBITDA in 2021, including both continuing and discontinued operations, was £398 million. This was slightly lower than 2020 (£412 million), principally reflecting a major planned outage on one biomass generation unit at Drax Power Station. In the context of that outage, we believe this was a strong performance.

The balance sheet also remains strong with net debt of £1,044 million in line with our plans and, we believe, supportive of our credit rating.

At the 2021 Half Year Results, we confirmed an interim dividend of £30 million (7.5 pence per share). The Board proposes to pay a final dividend in respect of 2021 of £45 million, equivalent to 11.3 pence per share, making the full year 2021 dividend £75 million (18.8 pence per share) (2020: £68 million, 17.1 pence per share). This represents a 10% increase on 2020 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

The Group has a clear capital allocation policy which it applied throughout 2021. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows from contracted income, the less predictable cash flows from the Group's commodity-linked revenue streams and future investment opportunities. The latter includes our stated intent to invest to expand the Group's biomass supply chain, in addition to options to develop BECCS and pumped storage. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Safety and sustainability

Safety is a long-held and central commitment of our operational philosophy. While the number of incidents is low, we remain vigilant and work continuously to reduce them. We are committed to the highest standards and have continued our efforts to strengthen our approach across the Group.

Sustainability is at the heart of the Group and we believe that achieving a positive economic, social and environmental impact helps us create sustainable long-term value. Throughout 2021 we have continued our work as a Task Force on Climate-Related Financial Disclosures (TCFD) supporter, developing science-based targets and identifying opportunities for further reductions of carbon emissions in our supply chain. The Board has also considered proposals for a Group Sustainability Framework, the aim of which is to instil, and monitor, sustainability objectives across the Group. This is an ongoing process that will continue in 2022.

People and values

I would like to thank all colleagues and contractors for their valuable contribution to the Group in 2021. In addition, I would like to welcome our new colleagues from Pinnacle who joined the Group in April. The Board has been hugely impressed by the professionalism of our Pinnacle colleagues and their willingness to embrace working together as a part of the enlarged Group.

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. We continue to engage with, and listen to, our colleagues. During 2021, Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums, and we will continue to do so in 2022. These meetings provide valuable ongoing insights and feedback for the Board. A key topic was our Covid-19 response and plans for returning to the offices. In response to feedback, we introduced a new, hybrid and flexible way of working to support colleagues.

Sustainability is at the heart of the Group, and we believe that achieving a positive economic, social and environmental impact helps us create sustainable long-term value.

We have monitored and challenged management on the steps being taken, and receive regular updates at Board meetings on the work being done to address diversity. We are making progress and, by the end of 2021, we had improved our gender representation at Board level to 44% (2020: 29%) and at the Executive Committee to 40% (2020: 22%).

Board changes

In October 2021, we welcomed two new Non-Executive Directors – Erika Peterman and Kim Keating. Their extensive experience in the US and Canada, will strengthen our Board and contribute to the diversity of backgrounds, insights and skills, which reflect the continued growth and international presence of Drax and the evolution of the Group as a leading global provider of sustainable biomass and dispatchable, renewable energy.

Summary

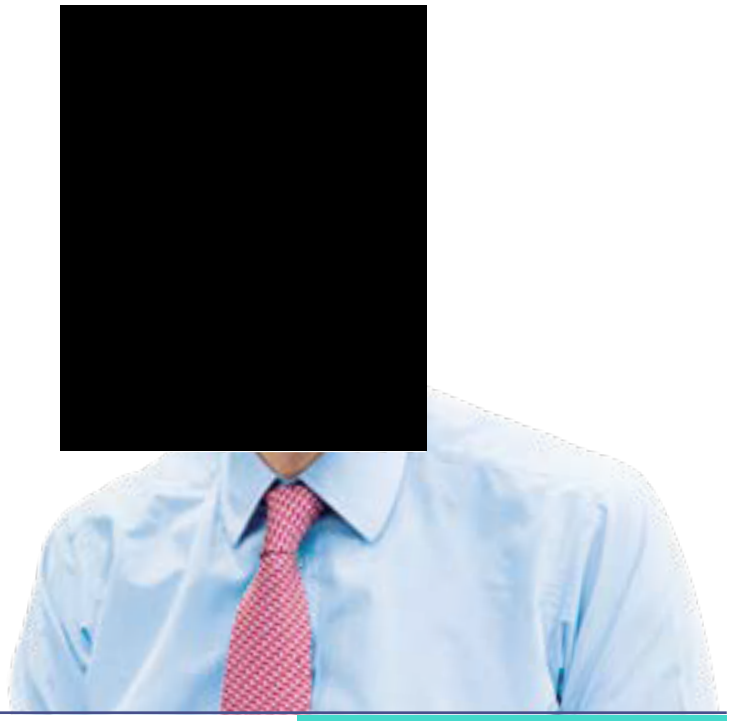
In 2021 we delivered a strong financial performance, supported our stakeholders and continued to pay a sustainable and growing dividend.

At the same time, we have made progress with our strategic objectives. Our biomass growth strategy is clear; our plans for biomass sales, BECCS and generation are all underpinned by the expansion of our supply chain. Through these complementary opportunities we believe we can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and become a carbon negative company.

Philip Cox CBE
Chair

CEO's review

2021 was a pivotal year for Drax as we took major steps to reduce further the Group's carbon emissions and focus increasingly on renewable biomass activities.



Will Gardiner, CEO

We ended commercial coal generation, sold our CCGT generation business to VPI Generation Limited for £186 million and acquired Pinnacle Renewable Energy Inc. (Pinnacle), a leading Canadian renewable energy company, for a cash consideration of £222 million (enterprise value of C$796 million).

The Group's purpose remains to enable a zero carbon, lower cost energy future and this drives our commitment to address climate change. Since 2012, the actions the business has taken have reduced our generation carbon emissions by over 95%, which are now amongst the lowest in Europe. We are the UK's largest source of renewable power by output and our ambition is to become a carbon negative company by 2030.

The world must act now to address the climate crisis and limit global warming to 1.5° C. We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, greenhouse gas removal technologies to remove carbon from the atmosphere.

Globally there has been increased recognition and policy support for biomass and Bioenergy with Carbon Capture and Storage (BECCS). The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5° C above pre-industrial levels and to achieve net zero by 2050.

Separately, in the autumn of 2021 the UK Government published its Net Zero Strategy and Biomass Policy Statement reaffirming the established international scientific consensus that sustainable biomass is renewable and that it will play a critical role in helping the UK achieve its climate targets. The Government also signposted an ambition for at least 5 million tonnes (Mt) p.a. of negative emissions from BECCS and Direct Air Capture by 2030. There are also targets beyond this point – 23Mt p.a. by 2035 and up to 81Mt p.a. by 2050.

Bioenergy is the EU's largest source of renewable energy, and the EU has noted continued support for sustainable biomass through the development of its third Renewable Energy Directive. In Japan, the government has approved 8GW of biomass generation as part of its own decarbonisation objectives.

We believe Drax is a world leader in sustainable biomass, and that BECCS can become a world leading, UK-led, and exportable solution for large-scale negative emissions.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. These include biomass supply chain expansion, UK BECCS, international options for BECCS and new pumped storage. Our investments in these areas are underpinned by strong cash flows and we expect to deliver high quality earnings, which continue to support our commitment to a sustainable and growing dividend.

2021 highlights

- Adjusted EBITDA of £398 million from continuing and discontinued operations
- Strong balance sheet and liquidity
- Sustainable and growing dividend
- Sale of gas generation, completed in January 2021, and end of commercial coal generation in March 2021
- Acquisition of Pinnacle Renewable Energy Inc.
- Progressing plans for biomass growth, including BECCS

Find out more in the Financial review on **page 22**

Acquisition of Pinnacle

The acquisition of Pinnacle, which completed in April 2021, transformed the Group's supply chain, making Drax the world's leading sustainable biomass generation and supply business. It advanced our strategic objectives by increasing production capacity, reducing cost and adding third party sales as well as a platform to further grow those sales.

Combining Pinnacle with our existing assets, we now have 17 operational and development sites in the US southeast and Canada, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and located in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to growing markets in Japan and Korea, where we already have long-term contracts, the UK and mainland Europe, which we can service out of the US southeast.

Summary of 2021

Safety remains our primary focus and in 2021 the Total Recordable Incident Rate was 0.22 (2020: 0.29). This is a good performance that reflects our ongoing focus on the delivery of safe, reliable and compliant operations. Our performance in the UK has improved over previous years, however performance at our newly acquired Pinnacle sites was not as good as we would like and we are working hard to improve there.

Our colleagues have responded tremendously to the challenges of Covid-19. We continue to operate Covid-19 secure workplaces, following relevant jurisdiction guidance with operational staff working in a safe manner, while the rest of our colleagues have adopted hybrid models of work.

Adjusted EBITDA of £398 million from continuing and discontinued operations represents a 3% decrease compared to 2020 (£412 million). The reduction principally reflects a major planned outage on one biomass unit at Drax Power Station, completed in the second half of 2021. In context we believe this was a strong performance, which reflected the acquisition of Pinnacle, higher output and lower cost in pellet production, and an improvement in the Customers business following the easing of lockdown restrictions in the UK.

While power prices remain an important driver of the Group's earnings, a strong forward sold position in 2021 means we have not been a significant beneficiary of higher power prices from these activities. However, we have been able to add forward hedged prices in future years at higher prices.

Our balance sheet is strong with cash and total committed facilities of £549 million as at 31 December 2021 and net debt of £1,044 million. Consistent with our fully funded plans for investment in growth through 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2.0x, but we now expect to be below this level in 2022.

Operationally, alongside the integration of Pinnacle we delivered increases in pellet production and further reductions in cost, while managing supply chain challenges associated with weather and forest fires in North America. In the UK, our generation fleet has continued to support the power system with high levels of renewable power, although the availability of the biomass Renewable Obligation Certificate (ROC) units was lower than in 2020.

Crucially, we have progressed our option for BECCS in the UK by starting a planning consultation process, selecting a technology partner – Mitsubishi Heavy Industries (MHI) and in December 2021 we awarded a contract to Worley Europe Limited to commence a full Front End Engineering Design (FEED) study. This is based on our increasing confidence in UK Government support for the project, as demonstrated in the Net Zero Strategy. An investment decision could be taken in 2024, subject to the right investment framework.

We remain committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Operational performance

Pellet Production

In North America, our Pellet Production business reported Adjusted EBITDA of £86 million, up 65% (2020: £52 million). This reflects higher levels of production from existing operations, ongoing cost reduction plans and the acquisition of Pinnacle.

Pellet production was 3.1Mt, an increase of 109% (2020: 1.5Mt), which reflects the commissioning of additional capacity at Morehouse and LaSalle, in addition to Pinnacle from April 2021, for sale of biomass to third-parties in Asia and Europe, and own-use at Drax Power Station.

The Group is in the final stages of commissioning 360 thousand tonnes (Kt) of new production capacity at Demopolis, Alabama and a new 40Kt satellite plant in Leola, Arkansas. The Group is also currently constructing a new 40Kt satellite plant at Russellville, Arkansas, allowing greater utilisation of lower cost sawmill residues whilst leveraging our existing infrastructure in the US southeast.

> "Through our strategy, we are creating exciting opportunities for growth aligned to global decarbonisation efforts. These include biomass supply chain expansion, UK BECCS, new pumped storage and the development of BECCS in North America.

Once complete, these developments, alongside incremental capacity expansions at existing sites, will increase nameplate production capacity to around 5Mt p.a.. Over 2Mt p.a. are contracted to high-quality third-parties under long-term contracts, with the balance available to Drax to fulfil its own-use requirements.

The Free On Board (FOB) production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) across the portfolio was $143/t, a reduction of 7% (2020: $153/t), which reflects our ongoing programme of cost reduction and supply chain improvements, and the addition of lower cost Pinnacle production.

Operationally, there has been no material disruption to own-use or third-party volumes from the global supply chain delays experienced in some other sectors. However, as outlined at the Group's 2021 Half Year Results, we experienced a small and contained fire at our Westview port facility in Prince Rupert, British Columbia. No one was injured but operations were temporarily suspended to allow for repairs. Separately, forest fires, heavy rainfall and flooding led to restrictions on rail lines and regional supply chains. As a result, pellet production and exports from Canada were restricted during the summer. Most recently, in December, extreme low temperatures in Canada led to some further reduction in output.

Through our enlarged and diversified supply chain we have been able to manage and limit the impact on our own operations and those of our customers and continue to monitor the potential for change that could have an impact on our business and customers.

"

The acquisition of Pinnacle transformed the Group's supply chain, making Drax the world's leading sustainable biomass generation and supply business

Will Gardiner
CEO

Meet some of our Canadian colleagues on **page 167**

Due to the Group's active and long-term hedging of freight costs, there has been no material impact associated with higher market prices for ocean freight. The Group uses long-term contracts to hedge its freight exposure on biomass for its Generation business, and following the acquisition of Pinnacle, has taken steps to optimise freight requirements between production centres in North America and end markets in Asia and Europe.

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C$675 million.

The deal complements the Group's existing supply contracts to Asian counterparties and European generators, increasing the Group's long-term third-party sales book by 15%, to around 22Mt, with total revenues of over US$4.5 billion and contract durations to the 2030s.

Generation

The portfolio produced 5% of the UK's electricity between October 2020 and October 2021 (the most recent period for which data is available) and 12% of the UK's renewable electricity over the same period, making Drax the UK's largest renewable generator by output.

Adjusted EBITDA of £372 million from continuing and discontinued operations, was a decrease of 17% versus 2020 (£446 million). The reduction principally reflects a major planned outage on the Group's Contract for Difference (CfD) biomass unit at Drax Power Station (more details below). Additional costs included a higher cost of biomass, reflecting historic forward foreign exchange hedging and higher grid charges.

Biomass availability was 88% (2020: 87%), including a very strong performance from the CfD unit, with availability of 95% offsetting a higher forced outage rate on the ROC units. This was mainly associated with boiler tube leaks and mill availability and included a two-week forced outage on one unit in September.

We believe that this, in part, reflects the growing utilisation of flexible operation on the three ROC units in their role producing renewable power and providing system support to the power system. To help minimise outage rates, in the future we expect to optimise generation across all four biomass units (ROC and CfD). This will take into account market power prices to maximise value from the biomass stocks available at any given time.

Biomass availability was also affected by a small increase in the number of rail delivery cancellations in the UK. These were due to driver availability, because of Covid-19 restrictions, and transfer plant reliability issues. We managed this through the flexibility of our ROC units, reprofiling generation from the first to the second half of the year.

In November 2021, the Generation business successfully completed a major 98-day planned outage on its biomass CfD unit, which included the third in a series of high-pressure turbine upgrades. We now expect the unit to benefit from thermal efficiency improvements and lower maintenance costs, incrementally reducing the cost of biomass generation at Drax Power Station.

Our hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £68 million (2020: £73 million).

The Group's generation assets have continued to play an important role providing stability to the UK power system at a time when higher gas prices, European interconnector issues, and periods of low wind have placed the system under increased pressure.

In March 2021, the Group's two legacy coal units ended commercial generation activities and will formally close in September 2022 following the fulfilment of their Capacity Market obligations. Reflecting the system challenges described above, the system operator called upon these units in the Balancing Mechanism for limited operations in September and November. These short-term measures helped to stabilise the power system and have not resulted in any material increase in the Group's total carbon emissions.

Also in March 2021, Drax secured Capacity Market agreements for its hydro and pumped storage assets providing revenues of around £10 million in the delivery period October 2024 to September 2025. The Group also secured 15-year agreements for three new 299MW Open Cycle Gas Turbine (OCGT) projects in England and Wales for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

Customers

Our Customers business reported Adjusted EBITDA of £6 million (2020: £39 million loss). This is a significant improvement on 2020, which was impacted by Covid-19 – principally in the SME business. The SME business continued to be affected by Covid-19 in the first half of 2021. We are continuing to explore operational and strategic solutions to support the development of this business.

The Group's Industrial & Commercial (I&C) supply business performed well with significant growth in the contracted sales position to high-quality customers. The implied customer demand for renewable power exceeds the generated volumes in the UK and we are well positioned with our own portfolio, as a premium for renewable power emerges.

We see an important role in supporting the decarbonisation of British I&C businesses through the supply of renewable energy, asset optimisation, Electric Vehicle services and carbon offset certificates, which we believe could evolve in the future to the provision of negative emissions. To facilitate these opportunities, we have restructured the Customers business – streamlining operations with the closure of offices in Oxford and Cardiff – and rebranded the Haven Power I&C business to Drax Energy Solutions.

Biomass strategy

In December 2021, the Group held a Capital Markets Day to provide an update on our strategy, which is designed to realise our purpose of enabling a zero carbon lower cost energy future and our ambition to be a carbon negative company by 2030.

The strategy includes three complementary strategic pillars, closely aligned with global energy policies and which increasingly recognise the unique role that biomass can play in the fight against climate change. These pillars are: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. To deliver that strategy, we also identified £3 billion of potential investment by 2030 in our biomass supply chain, BECCS and new pumped storage which we expect to undertake.

> We believe Drax is a world leader in sustainable biomass, and that BECCS can become a world leading, UK-led, and exportable solution for large-scale negative emissions.

The development of these pillars remains underpinned by the Group's continued focus on safety, sustainability and biomass cost reduction. In 2018, the Group's FOB biomass production cost was $166/t. In 2021, through a combination of fibre sourcing, operational improvements and capacity expansion (including the acquisition of Pinnacle), the FOB cost had reduced to $143/t. Drax continues to target an FOB cost of $100/t by 2027.

We believe we can achieve this target through the continued optimisation of existing biomass operations, technical innovation and the greater utilisation of sawmill residues and other lower cost renewable feedstocks. In this regard, during 2021 Drax Power Station completed trials using four different low-cost biomass materials. One of these materials represented 35% of the fuel mix on one biomass unit during test runs. This is a significant increase, although there remains much work to do.

A global leader in sustainable biomass pellets

We believe the global market for sustainable biomass will grow significantly, creating international opportunities for sales to third parties, BECCS, generation and other long-term uses of biomass.

Drax is targeting 8Mt of production capacity by 2030, which will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and current developments. To deliver this additional capacity we are developing a pipeline of organic projects, principally focused on North America, and expect to take a final investment decision in 2022 on 0.5-1Mt of new capacity, targeting returns significantly in excess of the Group's cost of capital.

Through the acquisition of Pinnacle, Drax has immediate access to new markets, underpinned by long-term index-linked contracts for third-party supply and the expertise to develop new commercial relationships. Underpinned by the planned expansion of production capacity, we aim to double sales of biomass to third parties to 4Mt p.a. by 2030, and develop our market presence in Asia and Europe, facilitated by the creation of new business development teams in Tokyo and London.

Drax is differentiated as a major producer, supplier and user of biomass, active in all areas of the supply chain, with long-term relationships and almost 20 years of experience in biomass operations. The Group's innovation in coal-to-biomass engineering, supply chain management, together with the development of a leading position in negative emissions, can be deployed alongside its large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships. We expect to sell all the biomass we produce at an appropriate market price (both for own use at Drax Power Station and to third-parties), typically with long-term index-linked contracts.

A global leader in negative emissions

The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050. They have identified a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS.

We plan to transform Drax Power Station into one of the world's leading carbon capture projects, using BECCS to permanently remove 8Mt of CO_2 emissions from the atmosphere each year by 2030. The project is well developed, the technology is proven and an investment decision could be taken in 2024, subject to the right investment framework. This would mean that the first BECCS unit would be operational in 2027 and a second in 2030.

Drax Power Station is in the Humber region, an area with one of the highest absolute level of carbon emissions in the UK, due to the number of industrial sites in the area. This makes the region a natural location for large-scale carbon capture and storage infrastructure for energy and industry. In October, the UK Government selected the East Coast Cluster (the Humber and Teesside regions combined), as one of two regions to be taken forward for the development of Carbon Capture and Storage (CCS) infrastructure. This is an important milestone for the Drax BECCS project and we expect further developments in 2022 regarding a financial model for UK BECCS.

We believe that the development of CCS and BECCS in the region can bring new investment, new jobs and world-leading and exportable negative emissions technologies in the UK.

We expect deliverability to be an important part of the UK Government's selection criteria – the technology to deliver post-combustion BECCS exists and is proven. In June 2021, Drax announced MHI as its technology partner for the development of the first two BECCS units at Drax Power Station, following trials of MHI's technology that commenced in the second half of 2020. Most recently, we confirmed an investment of around £40 million in 2022 in a programme of works which, alongside early site preparation works, will provide the detailed design information and costings to support the investment decision.

In addition, we are progressing our work around innovative technology options for carbon capture, including C-Capture. Drax (alongside IP Group and BP as C-Capture shareholders), continues to support C-Capture's work to develop an organic solvent that could be used for BECCS and other applications, which we believe could deliver significant long-term cost savings for future projects.

The Group aims to build on this innovation with a new ambition to deliver 4Mt of negative CO_2 emissions each year from new-build BECCS outside of the UK by 2030, and is currently developing models for North American and European markets.

A UK leader in dispatchable, renewable generation

The UK's plans to achieve net zero by 2050 will require the electrification of heating and transport systems, resulting in a significant increase in demand for electricity. Drax believes that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could meet over 80% of this demand. However, this will only be possible if the remaining power sources can provide the dispatchable power and non-generation system support services required to ensure security and stability of supply and to limit the cost to the consumer.

Long-term biomass generation and pumped storage hydro can provide these increasingly important services. Drax Power Station is the UK's largest source of renewable power by output and the largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

We are also developing an option for new pumped storage – Cruachan II – to provide an additional 600MW of dispatchable long-duration storage to the power system. The location, flexibility and range of services it can provide makes Cruachan, in Scotland, strategically important to the UK power system and aligned with its future needs. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory support.

Outlook

Drax has repositioned itself in the last decade from a single-site fossil fuel generator to the world's leading sustainable biomass generation and supply business, with global growth opportunities aligned with the need for renewables, negative emissions and more flexible energy systems.

Our focus is on progressing our strategy: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. Through these strategic objectives, we expect to create opportunities for long-term international growth underpinned by strong cash generation and attractive returns for shareholders, and to deliver value for our other stakeholders.

We are making good progress with the delivery of our strategy and will build on this as we continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS.

Will Gardiner
CEO

Biomass Sustainability

We are committed to sourcing sustainable biomass that achieves decarbonisation and positive forest outcomes

Policy

Biomass – when sustainably sourced – is a renewable, low carbon source of energy, and an important part of both UK and international renewable energy policy.

The legal frameworks and scientific principles which underpin this assessment are clear. Carbon emitted in the generation of renewable electricity from biomass is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the UN Intergovernmental Panel on Climate Change, which reaffirmed its long-standing position on sustainably sourced biomass in 2019. This interpretation is reflected in the European Union's second Renewable Energy Directive (REDII) and Taxonomy rules, which mirror REDII.

In July 2021, the European Commission began the development of REDIII. As expected, we have seen increased ambition around renewable energy deployment – including the continued evolution of rules around sustainable biomass sourcing – in addition to proposals to accelerate the decarbonisation of sectors such as heavy industry, heating and aviation. In the UK, the Government is currently reviewing and updating its Biomass Strategy which is due for publication in Q3 2022. As a user and supplier of sustainable biomass we welcome robust standards and look forward to contributing to the development of REDIII and the UK's updated Biomass Strategy.

Sourcing

We are committed to sourcing sustainable biomass that achieves decarbonisation and positive forest outcomes. We meet the strict standards set by national legislation and our own policies. Our long-term biomass strategy will be delivered through producing and using only the right biomass across our supply chain.

The material we use to make biomass pellets includes sawmill and forest residuals, and low grade roundwood (see page 46). We form part of a wider forest product sector where forest management and felling is primarily for the purpose of producing material for construction and manufacturing markets.

Our *Responsible Sourcing Policy for Biomass* sets out our forestry commitments for sourcing the right biomass – our commitment to only source biomass that makes a net positive contribution to climate change (i.e. more carbon is absorbed than released), protects and enhances biodiversity and has a positive social impact on local communities. Our policy goes beyond regulatory compliance and is based on the latest available science, for example from that of Forest Research, the UK's principal organisation for forest science.

Further to our own policy, the biomass we use for generation at Drax Power Station must meet, and is fully compliant with, the UK's mandatory regulatory standards set by Ofgem, as well as those of the EU, including REDII.

Assurance

We use a range of third-party certification systems across our supply base. These are externally audited on an annual basis, to ensure compliance with our policies and appropriate legislation. They include the Sustainable Forestry Initiative (SFI), Forest Stewardship Council® (FSC®)*, schemes endorsed under the Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Biomass Program (SBP).

100% of the woody biomass we produce and use is either certified by SBP, SFI, FSC or PEFC. Third-party supplier compliance is primarily evidenced by SBP certification and underlying Chain of Custody certifications. SBP certification is robust and suppliers are independently audited against the SBP standards annually. Audit reports are publicly available. Chain of Custody certification provides a mechanism for tracking wood fibre from the forest to its final destination, verifying that certified fibre has been identified and separated from ineligible fibre at each stage of the supply chain.

Certifications form one part of our wider due diligence process to ensure that suppliers demonstrate all necessary sustainability and legal requirements are met for biomass used for generation. Our process includes supplier engagement, risk assessments, sustainability requirements, including greenhouse gas (GHG) supply chain limits, that are captured in supply contracts, and third-party supplier audits. All suppliers are audited annually by SBP, and these audits include field visits and checking of GHG data. In addition, Drax conducts ongoing analysis to monitor forest outcomes.

Sustainability is a contractual requirement and remedies for non-compliance include, among other measures, termination of the contract.

Peer review and evaluation

We utilise post-harvest evaluations to ensure that the biomass we source is creating positive outcomes. In addition, our Catchment Area Analyses provides data to demonstrate that net carbon stocks are increasing in the fibre baskets from which we source.

An Independent Advisory Board (IAB) of leading academics, chaired by the former UK Government Chief Scientific Adviser Sir John Beddington, provides guidance and independent oversight on the science we use to make our choices. The advice and scrutiny from the IAB is intended to assure stakeholders that we will keep our policies under review and that the biomass we use takes account of the latest scientific research and best practice.

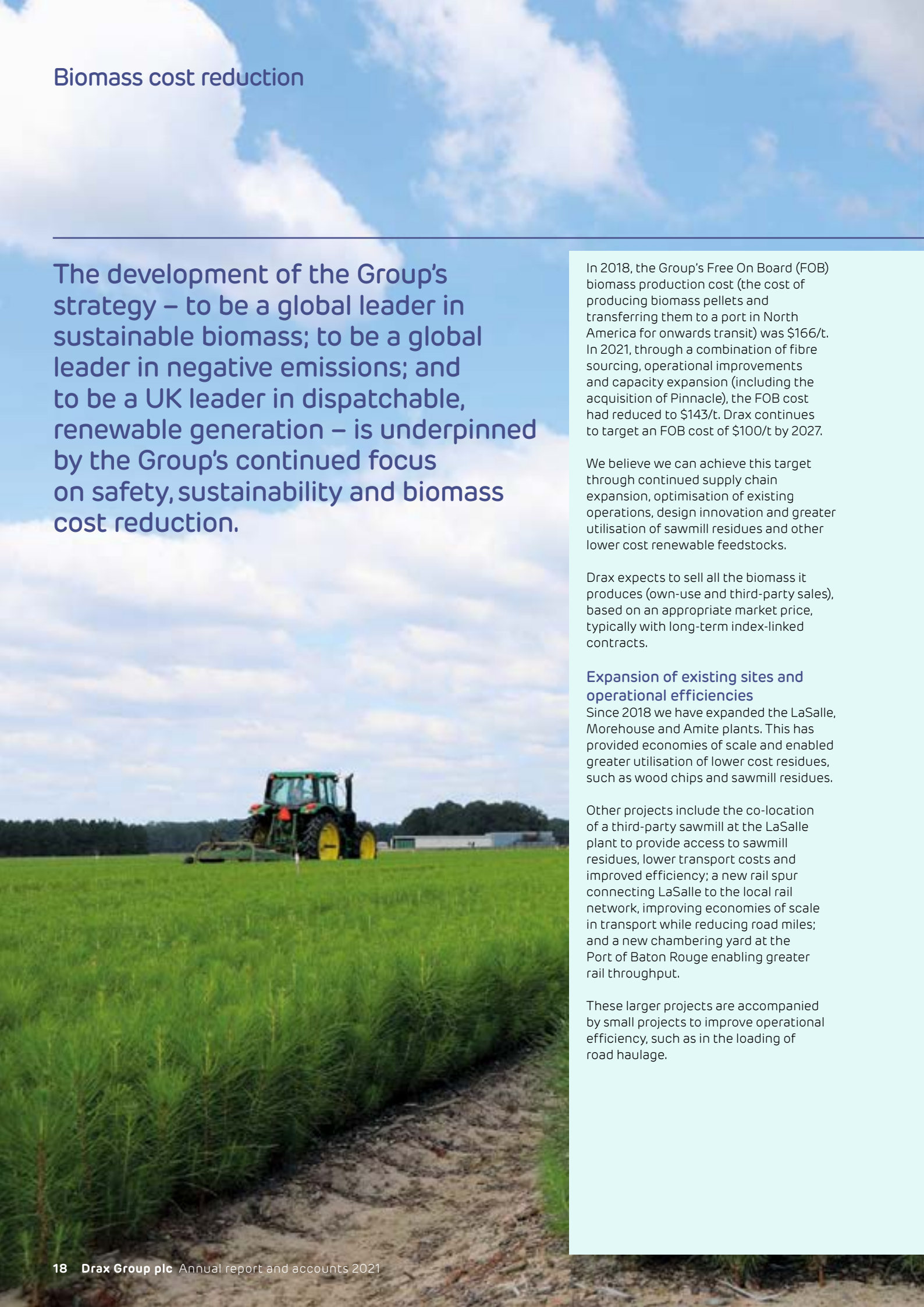
Increasing carbon stocks and positive forest outcomes

Managed forests often absorb more carbon than forests that are left untouched. In the US southeast, which is the source for most of our biomass, increased demand for wood fibre has directly contributed to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as a result of which more carbon is stored year after year, whilst harvests have also increased.

* License code: C119787

Biomass cost reduction

The development of the Group's strategy – to be a global leader in sustainable biomass; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation – is underpinned by the Group's continued focus on safety, sustainability and biomass cost reduction.



In 2018, the Group's Free On Board (FOB) biomass production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) was $166/t. In 2021, through a combination of fibre sourcing, operational improvements and capacity expansion (including the acquisition of Pinnacle), the FOB cost had reduced to $143/t. Drax continues to target an FOB cost of $100/t by 2027.

We believe we can achieve this target through continued supply chain expansion, optimisation of existing operations, design innovation and greater utilisation of sawmill residues and other lower cost renewable feedstocks.

Drax expects to sell all the biomass it produces (own-use and third-party sales), based on an appropriate market price, typically with long-term index-linked contracts.

Expansion of existing sites and operational efficiencies

Since 2018 we have expanded the LaSalle, Morehouse and Amite plants. This has provided economies of scale and enabled greater utilisation of lower cost residues, such as wood chips and sawmill residues.

Other projects include the co-location of a third-party sawmill at the LaSalle plant to provide access to sawmill residues, lower transport costs and improved efficiency; a new rail spur connecting LaSalle to the local rail network, improving economies of scale in transport while reducing road miles; and a new chambering yard at the Port of Baton Rouge enabling greater rail throughput.

These larger projects are accompanied by small projects to improve operational efficiency, such as in the loading of road haulage.

Greater utilisation of sawmill residues

In 2020, 21% of the pellets produced by Drax used sawmill residues. In 2021, largely through the acquisition of Pinnacle, sawmill residues increased to 57%.

The benefit of making wood pellets from sawmill residues is firstly lower cost – as a waste product of sawmill activity – and secondly, efficiency of production. Using semi-processed material like sawmill residues can, depending on moisture levels, remove several stages from the established pellet production process, resulting in more efficient, lower cost production of pellets and reduced carbon emissions through the production process.

Drax has developed a co-location model for satellite pellet plants in the US southeast, allowing greater utilisation of lower cost sawmill residues while leveraging our existing infrastructure in the region. By utilising only sawmill residues, these plants eliminate debarking, chipping and drying processes from the production process. This reduces the amount of capital required and improves process efficiency. The co-location of sawmills and pellet plants also reduces transportation, delivering additional savings while reducing cost and carbon emissions.

Acquisition of Pinnacle

The acquisition of Pinnacle, in April 2021, transformed the Group's supply chain by increasing production capacity by 2.9Mt p.a., reducing cost and creating a platform for growth in sales to third parties. The location of Pinnacle's production capacity on the west coast of Canada makes it well situated to supply growing demand in Asia, where we now have long-term contracts with customers in Japan and Korea.

Combining Pinnacle with our existing assets, we now have 17 operational and development sites in the US southeast, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and sited in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to markets in the UK, Asia and the rest of mainland Europe.

Further capacity expansion

Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the development of over 3Mt p.a. of new biomass pellet production capacity to supplement existing capacity and current developments. To deliver this additional capacity Drax is developing a pipeline of organic projects, principally focused on North America, and expects to take a final investment decision on 0.5-1Mt of new capacity in 2022, targeting returns significantly in excess of the Group's cost of capital.

Greater utilisation of other lower cost renewable feedstocks

Over the last decade, as part of our work on biomass innovation, we have screened hundreds of different types of materials. We are now using this knowledge of chemistries and operational characteristics to inform the exploration of alternative fuel types.

Examples of these materials include sugar cane residues (bagasse), nuts and agricultural residues. We believe that in time such materials could represent a significant volume of sustainable biomass material.

Trading and optimisation

An integral part of our strategy is to develop a biomass trading capability. This is an optimisation and risk management activity to support our aim to reduce biomass supply chain costs, and non-proprietary trading. Through this, we aim to optimise internal and external supply and develop opportunities in other markets.

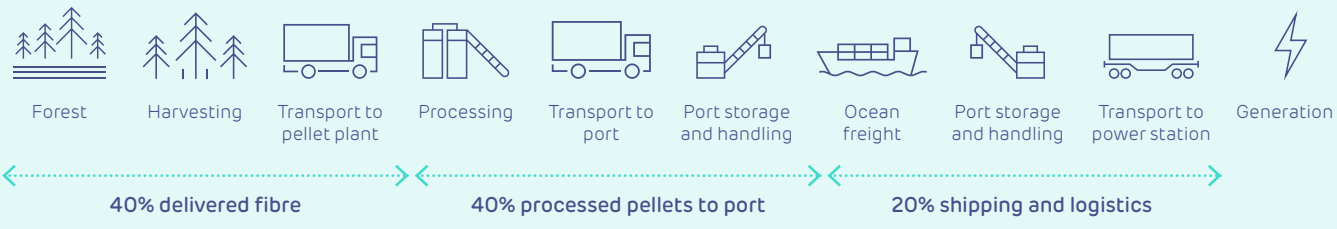
The acquisition of Pinnacle has provided Drax with an enlarged portfolio with more fibre baskets, pellet plants, ports and ships available for supply optimisation. This is enabling the Group to focus on the delivery of biomass produced in western Canada to Asian markets, and biomass produced in the US southeast to European markets. Through this process, we can minimise ocean miles, delivery times, carbon emissions and the cost of ocean freight across the portfolio.

Downstream – Drax Power Station

Our biomass cost reduction targets are primarily based on activities in the North American supply chain. However, we have also invested to improve thermal efficiency at Drax Power Station in the UK. In 2021, we completed the third in a series of three turbine upgrades which has improved thermal efficiency and, alongside other improvements, resulted in a reduction in fuel cost in the region of £1/MWh.

During 2021 Drax Power Station also completed trials using four different low-cost biomass materials. One of these materials represented 35% of the fuel mix on one biomass unit during test runs in 2021. This is a significant increase, although there remains much work to do.

Drax biomass supply chain – supplying biomass for own use and third-party supply – cost of a delivered pellet



Key performance indicators

Group Adjusted EBITDA from continuing and discontinued operations[1] (£m)*

Why we measure this

This is our principal financial performance metric, combining the earnings performance of each business to give a Group outcome

£398m

Average net debt[1] (£m)*

Why we measure this

This is a key measure of our liquidity (borrowings less cash) and our ability to manage our current obligations. Our long-term target is net debt to EBITDA of around 2x

£1,002m

Adjusted Earnings Per Share[2] (EPS)*

Why we measure this

This is an important measure of our profitability – showing our Adjusted earnings (Adjusted net profit from continuing and discontinued operations after tax) on a per-share basis

26.5p

Dividend

Why we measure this

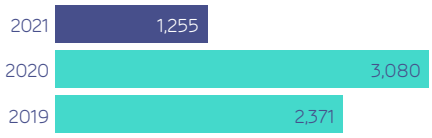
This is a primary measure of our value creation for shareholders. We aim to pay a sustainable and growing dividend

18.8p

Group carbon emissions, scope 1 & 2 ($ktCO_2e$)

Why we measure this

We are focused on reducing carbon emissions – as measured by scope 1 and 2 – which enables us to track progress towards our carbon negative ambition



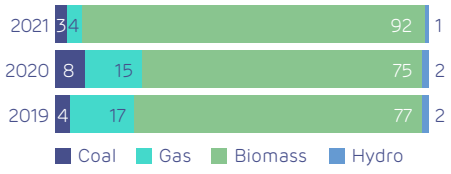
1,255

$ktCO_2e$

Power generation mix (% total output)

Why we measure this

This is a measure of the different generation sources we use, allowing us to track our progress as we seek to enable a zero carbon energy future



* The definition and calculation of Alternative Performance Measures (those that are defined by Drax and not IFRS) is set out on page 286.

(1) These measures are contained in the Group Scorecard and form the basis for the calculation of outcomes for annual bonus and 50% of the 2019 PSP award. TRIR was a measure in the 2019 and 2020 Group Scorecards and therefore has an impact on the calculation of the 2019 PSP. For more information see pages 150 to 153.

(2) EPS forms the basis for the calculation of outcomes for 50% of LTIP awards. For more information see page 139.

Total Recordable Incident Rate[1] (TRIR)

Why we measure this

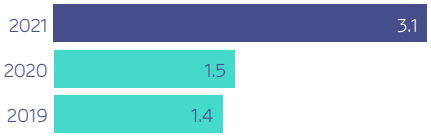
Good safety management is a core principle and is critical to safe and efficient operations. TRIR is an industry standard measure of the number of incidents over hours worked

0.22

Pellets produced (Mt)

Why we measure this

This measures a key part of our strategy – to increase our pellet production capacity and output



3.1Mt

Cost of production[1] ($/tonne)

Why we measure this

This measures a key part of our strategy – to reduce the cost of biomass produced

* Includes Pinnacle

$143
$/tonne

Biomass availability (%)

Why we measure this

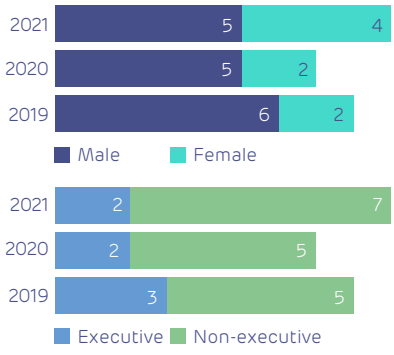
This is an important measure of the amount of time our biomass assets are available to operate, either to generate electricity or provide system support services

88%

Board composition and diversity

Why we measure this

Strong governance and having a supportive, diverse and inclusive working environment, enables us to deliver for stakeholders



44.4%
female directors

Employee engagement score

Why we measure this

An engaged and motivated workforce is a critical component in delivering our strategy

79%

Financial review

We continue to generate strong operating cash flows, which we expect to use to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy.

Andy Skelton, Chief Financial Officer

I am pleased to report a strong set of results for the year ended 31 December 2021.

Adjusted EBITDA from continuing and discontinued operations of £398 million was delivered inclusive of a major planned outage on the CfD unit at Drax Power Station during the second half of the year. It includes discontinued operations relating to our CCGT generation business, sold to VPI Generation Limited on 31 January, and the results of Pinnacle Renewable Energy Inc. (Pinnacle) following the acquisition on 13 April. The discontinued CCGT operations contributed Adjusted EBITDA of £20 million (2020: Adjusted EBITDA of £46 million).

Total operating profit from continuing operations increased to £197 million in the year (2020: £156 million loss). The loss in 2020 included £261 million of exceptional costs related to the announced closure of our coal operations. Exceptional items in the current year totalled £22 million and included £12 million of fees related to the acquisition and integration of Pinnacle.

During 2021, we saw significant growth in our Pellet Production business, most notably due to the acquisition of Pinnacle in April 2021, but also reflecting higher levels of production and profitability from existing operations. Total pellet production more than doubled to 3.1Mt during the year and production cost per tonne reduced by 7%.

Overall availability of our Biomass units was 88% (2020: 87%), with strong performance of the CfD unit of 95% (2020: 91%) offsetting the impact of a small increase in ROC unit outages. Our forward hedging strategy means that 2021 has not seen a significant benefit from higher power prices, but we have secured increased forward hedged prices in respect of 2022 and 2023.

The total financial impact of Covid-19 in the year of approximately £17 million significantly reduced from approximately £60 million in 2020. Most of the impact, £16 million, was in our Customers business. During the year, our Customers business also saw the impact of mutualisation costs from other supplier failures. Despite these challenges, the Customers business returned to profitability, delivering £6 million of Adjusted EBITDA.

We continue to generate strong operating cash flows, which we expect to use to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy. Cash generated from operations in the year was £354 million (2020: £413 million).

Net debt to Adjusted EBITDA ended the year at 2.6 times (2020: 1.9 times). Consistent with our fully funded plans for investment in growth through to 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2 times, but expect to be below this level by the end of 2022.

2021 financial highlights

- Strong financial performance – Adjusted EBITDA from continuing and discontinued operations of £398 million (2020: £412 million)
- Total operating profit from continuing operations of £197 million (2020: £156 million loss). 2020 included exceptional costs totalling £261 million in respect of the announced closure of our coal operations
- Cash generated from operations of £354 million (2020: £413 million)
- Strong liquidity – cash and committed facilities of £549 million (2020: £682 million)
- Net debt to Adjusted EBITDA of 2.6 times (2020: 1.9 times), inclusive of acquisition of Pinnacle – expect Net debt to Adjusted EBITDA below 2.0 times by end of 2022
- 10% increase in total dividend to 18.8 pence per share, a total cost of £75 million
- Acquisition of Pinnacle for C$385 million (£222 million) develops our biomass strategy, expanding production capacity, reducing costs and adding long-term third-party contracts and income streams
- Sale of Combined Cycle Gas Turbine (CCGT) generation operations concluded on 31 January 2021, giving rise to a small profit on disposal of £9 million

Adjusted EBITDA from continuing and discontinued operations

£398m
(2020: £412m)

Adjusted operating profit from continuing operations

£170m
(2020: £189m)

Total operating profit/(loss) from continuing operations

£197m
(2020: £(156)m)

Cash generated from operations

£354m
(2020: £413m)

Adjusted earnings per share from continuing and discontinued operations

26.5 pence
(2020: 29.6 pence)

Total basic earnings/(loss) per share from continuing and discontinued operations

20.0 pence
(2020: (39.8) pence)

Net debt to Adjusted EBITDA ratio

2.6 times
(2020: 1.9 times)

Total dividend per share

18.8 pence
(2020: 17.1 pence)

		Year ended 31 December 2021	31 December 2020
Financial performance (£m)	**Total operating profit**	**197**	(156)
	Exceptional costs and certain remeasurements	**(27)**	106
	Asset obsolescence charges	**–**	239
	Adjusted operating profit	**170**	189
	Depreciation, amortisation and losses on disposal of fixed assets	**208**	177
	Adjusted EBITDA from continuing operations	**378**	366
	Adjusted EBITDA from discontinued CCGT operations	**20**	46
	Adjusted EBITDA from continuing and discontinued operations	**398**	412
Adjusted EBITDA (£m)	Pellet Production	**86**	52
	Generation	**352**	400
	Customers	**6**	(39)
	Central and Other costs	**(65)**	(47)
	Discontinued CCGT operations	**20**	46
	Adjusted EBITDA from continuing and discontinued operations	**398**	412
Capital expenditure (£m)	Capital expenditure for the year	**238**	200
Cash and net debt (£m unless otherwise stated)	Cash generated from operations	**354**	413
	Net debt	**1,044**	776
	Net debt to Adjusted EBITDA (times)	**2.6**	1.9
Earnings / (loss) (pence per share)	Adjusted basic	**26.5**	29.6
	Total basic	**20.0**	(39.8)
Distributions (pence per share)	Interim dividend	**7.5**	6.8
	Proposed final dividend	**11.3**	10.3
	Total dividend	**18.8**	17.1

We calculate Adjusted financial performance measures, which are Drax specific and exclude income statement volatility from derivative financial instruments and the impact of exceptional items, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully on page 181, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 202. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 31 January 2021, the Group completed the sale of its portfolio of CCGT assets to VPI Generation Limited. Because of this transaction, the results of the CCGT portfolio for 2020 and 2021 have been classified as discontinued operations in the Consolidated financial statements. References to financial performance measures throughout this annual report refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 5.4 to the Consolidated financial statements. Tables in this financial review may not add down/across due to rounding.

During the year, we refinanced the debt acquired as part of the Pinnacle transaction, further reducing the Group's all-in cost of debt and adding another ESG-related instrument into our debt portfolio, which adjusts the margin payable based on the Group's carbon intensity, measured against an annual benchmark. The Group's liquidity position remains strong and provides a solid platform from which to execute our strategy. At 31 December 2021 total cash and committed facilities totalled £549 million (2020: £682 million).

Capital expenditure during the year totalled £238 million (2020: £200 million), principally reflecting investment in our Generation and Pellet Production businesses in line with our strategy.

The proposed final dividend of 11.3 pence per share is in line with that indicated when we announced our interim results and represents a 10% increase in the full year dividend compared to 2020.

Financial performance

Continuing and discontinued operations

The results of the CCGT assets, the sale of which completed on 31 January 2021, are presented as discontinued operations in both 2021 and prior year. Further detail is included in note 5.4 'Assets held for sale and discontinued operations'. A reconciliation of the amounts discussed in this financial review between continuing and discontinued operations is presented below.

Pellet Production

Our Pellet Production business continues to make good progress, with the integration of Pinnacle well advanced following the acquisition in April 2021. Production for the year more than doubled to 3.1Mt, with 3.2Mt of pellets shipped (2020: 1.5Mt produced and 1.5Mt shipped), generating Adjusted EBITDA of £86 million (2020: £52 million), an increase of 65%.

We also continued to make progress in reducing the cost of production. The overall cost of pellets produced during the year of $143/t represents a 7% reduction from $153/t in 2020. Cumulative savings compared to the 2018 cost of $166/t now total 14%. The reduction in 2021 reflects a lower cost of production in the Pinnacle business, but also improvements in our existing Pellet Production business with increased volumes, decreased fibre costs and procurement savings, partially offset by increased utilities and insurance costs. These initiatives to increase production volumes, reduce production costs and expand our sales to third-parties are critical to supporting the future strategy of the Group. In addition, sales to third-parties through the Pinnacle business totalled 1.2Mt during the year (2020: nil).

The improvements noted above were delivered against a backdrop of Hurricane Ida in the US in October, a fire at our Westview port facility and wildfires in Canada in July, and extreme low temperatures and flooding in Canada towards the end of the year. Whilst these events did result in some restrictions in pellet production and distribution, our diversified supply chain allowed us to limit this impact, demonstrating the resilience of both our operations and our people in North America. The work performed for the TCFD disclosures has aided us in considering the financial impact of climate change in more detail, and ensuring we build resilience into our business model.

Generation

Adjusted EBITDA from continuing and discontinued operations of £372 million represents a 17% reduction compared to £446 million in 2020. This principally reflects the major planned outage on the CfD biomass unit at Drax Power Station and, a higher cost of biomass in GBP terms due to historic hedged rates on foreign exchange contracts, which reflect prevailing conditions at the time the hedges were placed, and a reduction in the contribution of the discontinued CCGT operations. This was partially offset by increased balancing market activity. Overall generation volumes reduced from 18.8TWh in 2020 to 16.1TWh in 2021, reflecting a reduction in generation from coal of 1.2TWh and gas of 2.1TWh.

The major planned CfD unit outage was completed on time and on budget in November, incorporating a high-pressure turbine upgrade, completing a three-year programme to upgrade the turbines across three biomass units. This was a significant logistical and technical achievement, with the overhaul being completed in 98 days. The units are expected to benefit from lower maintenance costs and thermal efficiency improvements.

High gas prices, periods of low wind speed and issues with the interconnectors into Europe all put pressure on the UK energy system during 2021, leading to price volatility. We did not benefit significantly from increased prices during 2021, because of the high proportion of our sales book being hedged out to around two years. We do however expect to see benefits in 2022 and 2023, as hedges have been secured for these periods at higher prices.

Commercial coal operations ended in March 2021 and total generation from coal was down significantly year on year (0.4TWh vs 1.6TWh in 2020). In line with our grid licence the system operator was able to call our coal units into the balancing market on limited occasions between April and December in response to the challenges the UK energy system was facing. We currently do not expect the coal units to generate significant volumes during 2022, but they remain available to the system operator should they be required to support the network. These units will formally close in September 2022 when they have fulfilled their Capacity Market obligations.

	Year ended 31 December 2021 (£m)				Year ended 31 December 2020 (£m)			
	Adjusted EBITDA	Total operating profit	Adjusted profit after tax	Total profit after tax	Adjusted EBITDA	Total operating (loss)/profit	Adjusted profit after tax	Total (loss)/ profit after tax
Continuing operations	**378**	**197**	**88**	**55**	366	(156)	96	(195)
Discontinued operations	**20**	**26**	**17**	**24**	46	46	21	37
Continuing and discontinued operations	**398**	**222**	**105**	**79**	**412**	**(110)**	**118**	**(158)**

The CCGT operations made a strong contribution during the period of ownership until 31 January 2021, contributing £20 million of Adjusted EBITDA, compared to £46 million in the prior year. Total generation from the CCGT assets of 0.6TWh compared with 2.8TWh in 2020.

Our hydro operations have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. In the periods of high power price volatility experienced during the second half of the year, Cruachan performed well while providing vital support services to the energy system. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA of £68 million was slightly behind the £73 million in 2020.

We hold a large portfolio of forward and option contracts for various commodities and financial products, the nature, value and purpose of which is described in note 7.2 to the Consolidated financial statements. These contracts are held to de-risk the business, including protecting the sterling value of future cash flows in relation to the sale of power and purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies.

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. During 2021, this included restructuring in-the-money inflation contracts, to balance short and long positions across the duration of the hedge. The value of such activity decreased in 2021, due to lower market volatility after the Covid-19 pandemic. The financial impact of these activities – which is driven by market prices at the point of execution – is included within the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA. This reflects the fact that the principal purpose of holding these contracts is to manage and de-risk the cost of purchasing fuel.

Customers

Performance of our Customers business improved significantly during the year, returning to profitability with Adjusted EBITDA of £6 million compared to £(39) million in 2020. Whilst the recovery from the initial impact of Covid-19 continued, this result still reflects an estimated £16 million impact from the pandemic (2020: £44 million).

In addition to the challenges of Covid-19, the volatility of power and gas prices during the second half of 2021 caused a number of supply businesses to exit the market. Certain renewable costs and system charges were subsequently redistributed to the remaining market participants through mutualisation, resulting in an estimated £10 million cost for our Customers business (2020: £1 million). As the system operator took more action to balance and manage the system in a period of increased volatility, we saw an increase in related charges of £8 million in the year, which were partially offset by an increase of £5 million from the value of renewable certificates sold in the period.

The volume of power sold in the year ended 31 December 2021 grew by 7% to 18.7TWh (2020: 17.5TWh) as the UK economy recovered from the impact of the pandemic. The continuing Covid-19 recovery, coupled with more stringent credit requirements for new customers and continued effort in credit control, also resulted in a reduced bad debt charge. The total charge for 2021 was £16 million, compared to £43 million in 2020. At 31 December 2021 the provision for expected credit losses on trade receivables was £47 million (2020: £56 million). This was calculated using the same underlying methodology, with the 2021 assumptions and modelling updated to reflect the experience of the Covid-19 pandemic.

As noted in our Half Year Report, we are continuing to explore operational and strategic options for our SME customer segment. During 2021 we commenced the restructuring to streamline our operations, with the closure of offices in Oxford and Cardiff, and the rebranding of the Haven Power I&C business to Drax Energy Solutions.

> “Capital expenditure during the year totalled £238 million (2020: £200 million), principally reflecting investment in our Generation and Pellet Production businesses in line with our strategy.

Central and Other costs

Central and Other costs of £65 million increased £18 million in the year, reflecting an increase in strategic spend and variable performance-based rewards. The increase in strategic spend primarily reflects expenditure in the first half of the year on BECCS that was not deemed to be capital in nature.

Total operating profit/(loss)

Total operating profit for the year from continuing operations was £197 million (2020: loss of £156 million).
Exceptional items from continuing operations totalling £22 million (2020: £275 million) includes £12 million of acquisition and integration costs relating to Pinnacle, £5 million related to the restructuring of the Customers business and £5 million of coal closure costs.
In 2020, exceptional costs included £261 million in respect of the announced closure of our coal operations.

Certain remeasurements from continuing operations led to a net £49 million gain (2020: £70 million loss) to the income statement for the year ended 31 December 2021, reflecting the impact of changes in commodity prices on the valuation of our forward hedge position.

Depreciation, amortisation and losses on disposal of fixed assets for the year totalled £209 million (2020: £177 million). The acquisition of Pinnacle accounted for most of this increase. There was no depreciation or amortisation related to the discontinued operations during 2021, as they were classified as held for sale during the period.

Profit after tax and Earnings per share

Total profit after tax from continuing operations was £55 million (2020: £195 million loss).

Net interest costs for the year of £71 million reduced from the previous year (2020: £76 million). Prior year net interest costs included a £9 million write-off of deferred refinancing costs upon the refinancing of the 2022 sterling bond and the £125 million ESG term loan facility. 2020 also included £3 million of rebasing fees not incurred in 2021. This was partially offset by increased lease interest following the Pinnacle acquisition and an increase in levels of debt drawn.

The total tax charge of £66 million includes £12 million (12.0% effective tax rate) on continuing Adjusted results and £54 million on continuing exceptional items and certain remeasurements.

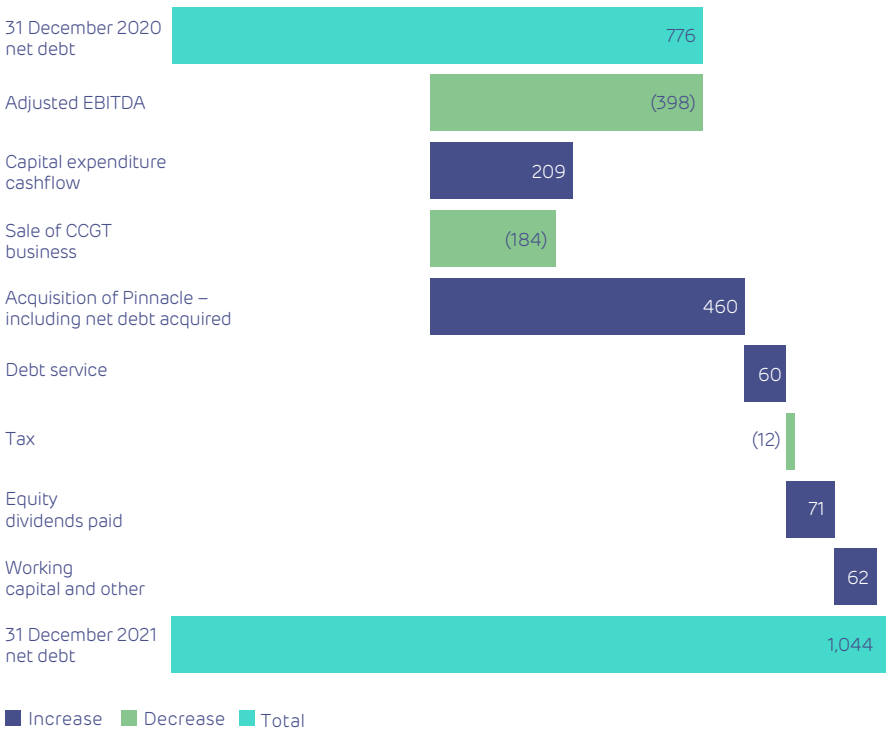
The 12.0% effective tax rate on Adjusted results is lower than the standard rate of corporation tax in the UK of 19.0% because of patent box credits, in relation to the biomass conversion, and the super-deduction for qualifying plant and machinery, announced in March 2021. This super-deduction also meant that no corporation tax payments were made by the Group during the year, and cash flows in relation to corporation tax were a £12 million refund in relation to overpayments from previous years.

The £54 million charge on continuing exceptional items and certain remeasurements includes a £49 million non-cash charge because of a revaluation of deferred tax balances following the enactment of the increase in UK corporation tax rates from 19% to 25% with effect from April 2023. As noted in the Group's Half Year Report, this revaluation charge has been treated as an exceptional item due to its nature and size.

The Adjusted net profit from discontinued operations for 2021 was £17 million (2020: £21 million). The Total net result from discontinued operations for 2021 was £24 million (2020: £37 million).

The net impact of all of the above is that Adjusted basic earnings per share reduced by 10% to 26.5 pence per share (2020: 29.6 pence per share). Total basic earnings per share improved from a loss per share of 39.8 pence in 2020 to earnings per share of 20.0 pence in 2021.

Net Debt Development
(£m)



Capital expenditure

Capital expenditure during the year was £238 million (2020: £200 million). Significant investments included maintenance projects at Drax Power Station totalling £45 million, £19 million for the final of three turbine upgrades on our biomass units and £56 million for expansions in the Pellet Production business, encompassing commissioning of a new facility at Demopolis (acquired with Pinnacle), expansion of our facility at LaSalle and development of satellite plants in the US southeast.

During the year, the pre-front end engineering design study for BECCS at Drax Power Station was successfully completed. Additionally, the East Coast Cluster, of which Drax is a member, was named as a 'track one' cluster by the UK Government, with the aim of developing infrastructure to allow individual CCS projects, such as BECCS, to commence operations in the mid-2020s. These facts, along with other supporting information, provided sufficient confidence to begin capitalising certain costs in relation to this project during 2021. Following the announcement in December that we will commence the front-end engineering design and site preparation works, with an estimated cost of around £40 million, we expect to capitalise further costs in 2022.

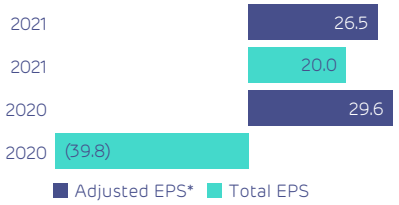
The project in our Customers business associated with a new billing system was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting their failure to perform under this contract. Amounts totalling £19 million have previously been capitalised in respect of this project. No amounts have been provided against this value as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

Cash and net debt

Cash generated from operations

The Group continued to generate significant cash from operations in 2021, with a total inflow of £354 million (2020: inflow of £413 million) before interest and tax payments. This reflects our continued

Earnings per Share
(pence)



* EPS based on profit/(loss) for the year including continuing and discontinued operations

focus on cash flow discipline and management of working capital. A net cash inflow from operating activities, an underlying decrease in inventories, and collateral receipts on in-the-money derivative contracts was offset by an increase in receivables and ROC assets during 2021.

Net cash released from working capital in 2021 was £27 million (2020: £37 million). We actively optimise our working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements.

Historically, cash from ROCs was realised several months after the ROC was earned, usually at the end of the ROC compliance period (on average around nine months); however, the Group is now able to limit the overall impact of ROCs on working capital by making separate sales and purchases during the compliance period, typically accomplished when the ROC is certified, which is usually around three months after generation. During 2021, such transactions generated a net cash outflow of £22 million due to more purchases than sales in the period (2020: £74 million outflow). The overall working capital outflow from ROCs of £162 million (2020: £23 million inflow) reflects an increase in ROC assets held on the balance sheet due to increased generation in the latter stages of 2021. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities at 31 December 2021 was £nil (31 December 2020: £nil).

As outlined above, there has been significant volatility in power and commodity markets during 2021. We actively manage the liquidity requirements associated with the hedging of power and other commodities and while our overall position at 31 December 2021 was a net posting of collateral, the design of our trading agreements and methods of posting collateral resulted in a cash inflow of £168 million for 2021 (2020: £12 million inflow).

Net cash generated from operating activities in the year was £307 million (2020: £306 million). Largely because of the super-deduction announced in March 2021, cashflow relating to corporation tax during 2021 was a net inflow of £12 million, compared to an outflow of £48 million in 2020. The 2020 outflow reflects the change in the requirements for tax payments for large companies. The Group expects to make no corporation tax payments during 2022 because of the continuing super-deduction for capital allowances in the UK, and utilisation of losses in the US and Canada.

Net cash movements

Net cash outflows in relation to capital expenditure were £209 million (2020: £171 million). This increase is attributable to the major projects outlined above.

The net cash outflow for the acquisition of Pinnacle of £204 million was offset by receipts from the disposal of the CCGT assets of £184 million. Cash outflows in respect of dividends paid in the year of £71 million (2020: £65 million) increased by 9%.

The net movements in relation to non-controlling interest of £15 million (2020: £nil) predominantly relate to the increased investment in Alabama Pellets LLC during 2021, as described in the 'Other information' section below.

In February 2021, the Group drew down the remaining £45 million and €95 million of the infrastructure term loan facility agreements entered into in 2020.

On 13 July 2021, the Group completed the refinancing of the Canadian dollar facilities acquired as part of the Pinnacle transaction, which had a cost of over 5.5%. The new facilities include a C$300 million term loan and C$10 million revolving credit facility (RCF). The facilities mature in 2024, diversify the Group's sources of funds, further reduce the Group's all-in cost of debt to below 3.5%, and include an embedded ESG component which adjusts the margin payable based on the Group's carbon intensity, measured against an annual benchmark. These new facilities, alongside existing cash reserves of around C$130 million, were used to refinance the acquired facilities.

Net debt, net debt: Adjusted EBITDA and Liquidity

	31 December 2021 £m	31 December 2020 £m
Cash	**(317)**	(290)
Current borrowings	**41**	–
Non-current borrowings	**1,320**	1,066
Net debt	**1,044**	776
Adjusted EBITDA	**398**	**412**
Net debt: Adjusted EBITDA	**2.6**	**1.9**

The overall impact of the net cash inflow in the year and the acquisition of Pinnacle is that net debt as at 31 December 2021 was £1,044 million (2020: £776 million). This gives rise to a net debt to Adjusted EBITDA ratio at 31 December 2021 of 2.6 times (2020: 1.9 times), before the impact of hedging. As previously outlined, this ratio is expected to return to below 2.0 times during 2022.

	31 December 2021 £m	31 December 2020 £m
Cash and cash equivalents	**317**	290
RCF available but not utilised	**231**	232
Customers trade receivable factoring facility available but not utilised	**–**	30
2020 Private placement facility available but not utilised	**–**	130
Total cash and committed facilities	**549**	**682**

Liquidity

In addition to cash on hand and the Canadian RCF mentioned above, the Group has access to a £300 million ESG RCF, available to manage low points in the cash cycle, which expires in 2024, with a one-year extension clause. No cash has been drawn under this RCF for over three years but £74 million (2020: £68 million) has been drawn as letters of credit.

A significant proportion, almost 90%, of the Group's debt now falls due in a period over three years from the Balance Sheet date.

Our liquidity position remains strong, reflected by all three of our ratings agencies evaluating our liquidity assessment as strong. Cash and committed facilities as at 31 December 2021 were £549 million (2020: £682 million), the reduction predominantly driven by utilising existing cash reserves within the Group to reduce Pinnacle's debt upon refinancing. Available cash and committed facilities provide substantial headroom over our short-term liquidity requirements.

Derivatives and rebasing

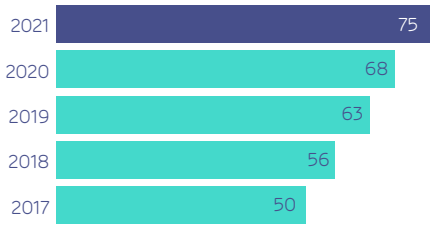
We use derivatives, including cross-currency swaps, to hedge the sterling cost of the interest payments and future principal repayments in respect of our facilities denominated in foreign currencies. A reconciliation of net debt incorporating the impact of derivatives, in addition to net debt per the IFRS balance sheet, is set out in note 4.3 to the Consolidated financial statements. At 31 December 2021, this resulted in net debt adjusted for hedging of £1,108 million (2020: £819 million).

Rebasing is a process whereby the rates agreed in a contract previously entered into are modified to current market rates. This leads to an initial cash inflow, as the mark-to-market on the contract is settled at the time of rebasing, with a subsequent outflow in future years, compared to if no action had been taken. The Group rebased contracts during the first half of 2020 to realise working capital benefits in light of the developing Covid-19 pandemic.

The overall net outflow associated with rebasing activity in 2021 was £32 million (2020: net outflow of £27 million). This was in relation to rebased cross-currency swaps and foreign currency trades, where the rebasing occurred in 2020 or prior financial years. At the end of 2021 outstanding cash received from rebased cross-currency swap trades was £48 million (2020: £56 million) and from rebased foreign currency trades was £nil (2020: £24 million).

Total Dividends

(£m)



Distributions

In line with our long-standing capital allocation policy the Group is committed to paying a growing and sustainable dividend. At the forthcoming Annual General Meeting, on 27 April 2022, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share. This, coupled with the interim dividend of 7.5 pence per share paid in October 2021, gives a total dividend for the year ended 31 December 2021 of 18.8 pence per share (2020: 17.1 pence per share). This equates to a 10% increase in dividend per share in the year. If approved, the final dividend will be paid on 13 May 2022, with a record date of 29 April 2022.

Other information

Sale of CCGT assets

On 31 January 2021, we completed the sale of our CCGT assets to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. The sale price represents a return over the period of ownership significantly ahead of the Group's weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021, which included £24 million in respect of customary working capital adjustments. Working capital adjustments were subsequently finalised at £22 million, amending the initial consideration received to £186 million.

The Group recorded an overall gain on disposal of £9 million from this transaction. A gain of £15 million was recognised in the Consolidated income statement for the year ended 31 December 2021, with £3 million of transaction costs and £3 million of associated mark-to-market losses previously expensed to the income statement in 2020. The gain includes an assessment of the fair value of the contingent consideration noted above, which remains unpaid at the date of this report.

In the Consolidated income statement, the results of the CCGT portfolio for the period prior to disposal in 2021 have been presented as discontinued operations. The gain on disposal and derivative remeasurements associated with the portfolio have also been presented within discontinued operations as exceptional items.

See note 5.4 in the Consolidated financial statements for further information.

Acquisition of Pinnacle Renewable Energy Inc. and associated transactions

On 8 February 2021, the Group announced the proposed acquisition of 100% of the issued share capital of Pinnacle at a price of C$11.30 per share.

The acquisition subsequently completed on 13 April 2021. Total consideration amounted to C$385 million (£222 million). Transaction and integration costs of £12 million have been recognised as an exceptional item in the Consolidated income statement during 2021.

The acquisition supports the Group's strategic objectives by increasing production capacity, reducing biomass production costs and creating a platform for growth in third-party supply. The transaction transforms the Group's supply chain and positions the Group

as the world's leading sustainable biomass generation and supply business. The Group has 17 operational and development sites, with a total nameplate capacity of around 5Mt p.a. once all developments are commissioned.

Financial information in respect of the acquisition, including the fair value of assets and liabilities acquired and an initial calculation of goodwill, plus information regarding non-controlling interests, is included in note 5.1 to the Consolidated financial statements. As we are still within the twelve-month measurement period for the acquired assets and liabilities, the values in relation to this business are provisional, although no material adjustments are expected to be made in the remainder of the measurement period.

On 13 July 2021, the Group acquired a 20% minority interest in Alabama Pellets LLC (a non-wholly owned subsidiary of Pinnacle) from The Westervelt Company for $30 million cash consideration. The acquisition increased the Group's interest in Alabama Pellets LLC to 90%. Alabama Pellets LLC owns the Aliceville and Demopolis pellet plants, with a combined capacity of 660kt p.a..

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C$675 million. This forms part of the Group's recently announced target to double biomass sales to third-parties to 4Mt by 2030.

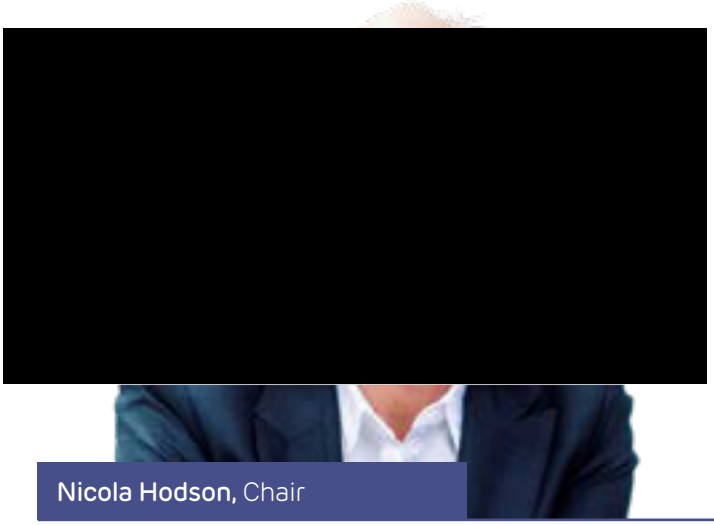
Going concern

In addition to the routine scenario planning incorporated into our business planning process, we have modelled a series of scenarios based on our principal risks and a reasonable worst case. These scenarios have helped us to assess the Group's financial resilience over both the next 12 months and a longer period for the purpose of viability reporting. The period assessed for viability reporting has been extended from three to five years in 2021, in line with the stage of the planning cycle and strategy development the Group has reached during the year. Further detail can be seen in the Viability Statement.

In particular, we have considered the impact of extended generation outages across our portfolio, taking into account risks associated with plant operations and supply chain, as well as commodity price exposure. While there would be a financial impact, none of the scenarios modelled would result in an impact to the Group's liquidity, solvency or covenants that could not be remediated by taking mitigating action. In reaching this conclusion, no additional financing was contemplated beyond existing committed facilities. Climate change and potential impacts of Covid-19 have been considered as part of the scenarios tested.

Consequently, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due for at least the next 12 months, while operating within the means of its current capital structure. Accordingly, the Directors have approved the use of the going concern basis when preparing the consolidated financial statements. The Directors also have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment.

Remuneration at a glance
Linking remuneration with our strategy and purpose



The Remuneration Committee ensures that the remuneration of Directors and the wider workforce is aligned to Drax's evolving strategic ambitions

Nicola Hodson, Chair

A key focus for the Committee is to ensure that Drax's short and long-term variable pay programmes appropriately reward for the delivery of financial and strategic performance, and delivery of leading ESG practices and performance.

As Philip Cox explains on page 10, the strategy at Drax combines three aspects of the Group's opportunity: to be a global leader in sustainable biomass pellets; a global leader in negative emissions; and a leader in UK dispatchable, renewable generation.

In conjunction with these objectives, Drax is committed to building a culture which respects and enables our colleagues, works collaboratively with our business partners and creates long-term relationships with stakeholders in developing performance which is underpinned by a recognition of our duty of care and responsibility to positively impact the places which the Group's operations reach. The Board believes the Group must deliver the right combination of long-term value creation and a sustainable business, underpinned by the right culture and values, informed by, and responsive to, stakeholders.

A fundamental responsibility of the Committee is to ensure that the way in which Executive Directors and the wider workforce are rewarded is aligned to the realisation of appropriately balanced short- and longer-term strategic objectives.

The Committee gives thorough consideration each year to the metrics to include in the annual bonus plan for the forthcoming year. Delivering strong financial performance is of fundamental importance and this makes up the majority weighting of our annual bonus plan (60%), for which the majority of colleagues, including the Executive Directors, are eligible to participate.

In addition to the financial health of the organisation, delivery of critical milestones is essential to making progress on each of the strategic objectives. These metrics account for a 20% weighting and can vary each year in accordance with our business plan. The development and implementation of BECCS is key to our objective to be a global leader in negative emissions. As such, annual milestones reflecting the development and implementation of BECCS form one of the primary strategic metrics in the 2022 annual bonus plan. Our expectation is that we will include BECCS milestones as a metric in future bonus plans.

ESG performance is a key focus for Drax. You can read more about this in our section on Sustainable Development and TCFD disclosures on pages 44 to 71. ESG metrics have been a part of the annual bonus plan for a number of years. For the 2022 Scorecard, ESG metrics will have a 20% weighting. Based on input from PwC, the Committee's advisers, and our corporate brokers, we have adapted the ESG metrics for 2022.

As a result we have a metric focused on improving diversity, equity, and inclusion (DE&I) across the Group in the 2022 annual bonus plan. This metric will focus on improving inclusion across Drax in 2022. We have chosen this in recognition of the priority given by the Board and senior management to influencing change across the Group that reflects wider society and our own intentions. We expect to assess the effectiveness of this in 2022 and adapt accordingly how we track and measure DE&I in subsequent years.

Drax is committed to building a culture which respects and enables our colleagues, works collaboratively with our business partners and creates long-term relationships with stakeholders.

In addition, a new metric specifically focused on reducing the organisation's carbon emissions is being adopted combining elements at both the Group strategic level and at each of our sites. The intention is that we recognise local priorities and requirements in tracking and improving performance. In combination these actions will directly link reward of our colleagues to the delivery of an annual carbon reduction in support of the organisation's long-term plan to be net zero by 2030.

In 2022 the carbon reduction metric will be focused on developing a blueprint for a low carbon and low particulate emissions mill. A blueprint to which newly created mills will be expected to conform and which will inform how we adapt our current mills to improve efficiencies. We have also considered how this metric is likely to evolve in future years and our expectation is that it will be based on an annual reduction of Group carbon emissions, reflecting the importance of incremental milestones in the journey to achieving net zero by 2030.

Metric	Weighting	Workforce Alignment
Financial	60%	All eligible colleagues, including Executive Directors, are subject to the same performance metrics, ensuring alignment.
Strategic	20%	
ESG	20%	
Safety acts as a bonus modifier		

In 2020 we took the decision to remove our safety performance (in the form of total recordable incident rate) as a metric in the bonus plan. Instead, reflecting that safety is a critical part of our day-to-day operations, safety is a modifier underpinning the overall bonus award. We felt this change would give safety more potential impact in the bonus plan as it can now affect the total bonus award, rather than limiting it to a specific metric.

The majority of colleagues are eligible to take part in the annual bonus programme, and all colleagues who participate are subject to the same performance metrics. This ensures full alignment across the business from Executive Directors through the wider workforce.

The Drax Long Term Incentive Plan (LTIP) rewards longer-term company performance. Vesting of LTIP awards is conditional on two metrics: total shareholder return relative to the FTSE 350 (TSR) (weighting of 50%) and cumulative adjusted earnings per share (EPS) (weighting of 50%). The TSR element ensures that a significant part of the reward is conditional on the shareholder experience over the same period. The EPS element rewards for consistent, year-on-year delivery of robust financial performance.

In 2022 the Remuneration Committee will review the existing Directors Remuneration Policy. As part of this review, we will consider how the evolution of Drax's business model, our strategic priorities and the wider focus on sustainability and environmental issues should be reflected in the performance-related elements of executive, senior manager and wider colleague reward.

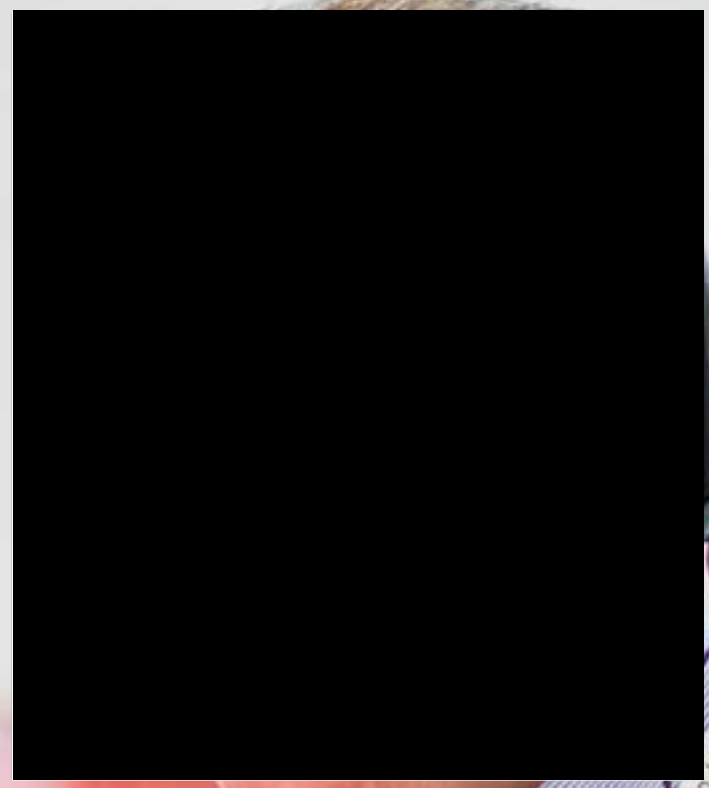
We expect to undertake engagement later in 2022, with proposed changes resulting from this review put to shareholders at the AGM in 2023 for approval.

Nicola Hodson
Chair of the Remuneration Committee

We listen carefully

We listen to our colleagues, communities, customers and other stakeholders, working with them to better understand their needs, and deliver the best possible outcomes.

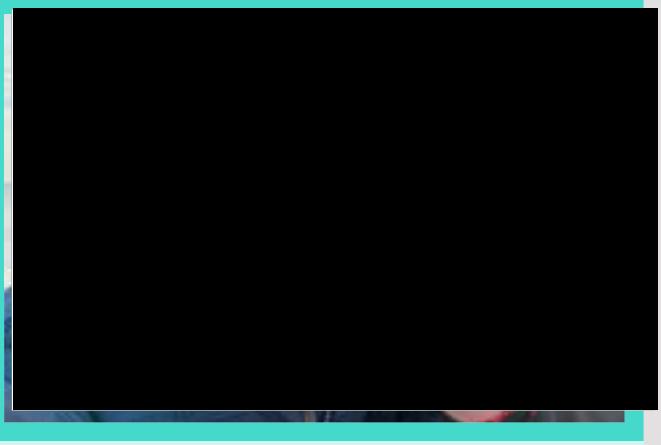
"I adapted my work day to give my son the attention he needed, as well as getting my work done."



In response to colleague feedback, from the MyVoice "Future ways of working survey", the business made several changes to allow colleagues to work more flexibly, to adapt their working day to their own personal circumstances.

Like many parents, single dad Tim Cole had to juggle home schooling and work during the early lockdown, and flexible working helped him manage. He said "I adapted my work day to give my son the attention he needed, as well as getting my work done. I'd have an early start and whilst my son had online lessons, I'd catch up on emails, have meetings and respond to queries. I'd take a break to go out for some exercise together and I always finished at 5.30pm so we could spend a couple of fun hours and eat together. Once he'd gone into bed I found I could get into the really heavy lifting work, the more strategic stuff that required my absolute attention."

Tim Cole
Head of Customer Marketing



Engagement score: "I am generally able to balance my personal and work life"

85%

Employee engagement score in 2021

79%

In this section

Section 172 statement

Find out more on page 35

Engaging our stakeholders

- Workforce
- Shareholders and investors
- Communities and local authorities
- Government and political bodies
- Non-governmental organisations (NGOs)
- Customers
- Regulators and network operators
- Schools and colleges
- Suppliers and contractors
- Think tanks and academics
- Trade and industry associations

Find out more on pages 34 to 41

Engaging our stakeholders

Engaging with our stakeholders is fundamental to our long-term success

Achieving our purpose – to enable a zero carbon, lower cost energy future – and supporting global efforts to reduce carbon emissions are long-term projects. Building sustainable relationships with a diverse range of interested parties is critical in helping us achieve our aims.

With multi-year time horizons for many of our strategic and investment decisions, we recognise that those decisions can have an impact far beyond our business and far into the future. This is why we proactively seek to understand the needs and perspectives of our stakeholders, and why we know that the quality of our decision making is richer when we actively consider those views.

Understanding the needs of our stakeholders is essential to our long-term success

Drax has a wide range of stakeholders and takes care to ensure that the Group, and the Board, has an effective strategy to identify and engage with them.

The Board receives regular reports on stakeholder engagement, including from the Corporate Affairs and Investor Relations functions. This ensures that the Board takes into account the views of our stakeholders when making strategic decisions, for example when considering the Pinnacle acquisition and the Group's response to Covid-19, including working arrangements for our colleagues.

The methods of engagement we use vary according to the issue and the stakeholder concerned. Engagement takes place at many levels of the business and a judgement is made on a case-by-case basis on whether engagement is required by the Board, Executive Committee, senior management or at the operational level.

We maintain a detailed map of key stakeholders, both internal and external, the concerns they have raised and the date of the last meeting. Management also considers how these views should be accounted for in subsequent actions, and keeps under review the relevant stakeholders that may be affected by major decisions.

To ensure clear feedback, the Board receives regular reports from the CEO on key stakeholder relations activity, current issues and the relevant feedback received from stakeholder interaction. These reports are supported by management, the Corporate Affairs team and the relevant owners of direct stakeholder engagement.

The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006 (Section 172). Supporting this, Board and Executive Committee discussions – and accompanying papers – include information on the stakeholders likely to be affected by items under discussion and the possible impact. This helps to ensure that the interests of all relevant stakeholders, and the need to act fairly between members of the Company, are considered in decision-making.

In June 2021, the Board received papers providing an update on stakeholder engagement, and specifically an assessment of how management and the Board were responding to the requirements of Section 172. This included a more strategic assessment of the quality of engagement, which identified the range of stakeholders, key issues and how the Group was responding to these.

As Drax changes and grows, we expect the scope and breadth of our engagement with different stakeholders to also evolve.

Pages 37 to 41 set out the broad stakeholder groups we identified and engaged with in 2021, highlighting their key concerns, why and how we engaged, and how we responded.

Who are our stakeholders?

Workforce

Shareholders and investors

Communities and local authorities

Government and political bodies

Non-governmental organisations (NGOs)

Customers

Regulators and network operators

Schools and colleges

Suppliers and contractors

Think tanks and academics

Trade and industry associations

Section 172 Statement

The Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders, and recognises that decisions taken today will shape both the longer-term performance of the business and its impact on our various stakeholders. This consideration enables Drax to have a positive impact on the environment, our communities and wider society, delivering sustainable value creation.

During the year the Board considered in its discussions and decision-making the matters contained within Section 172, acting in good faith to promote the sustainable long-term success of the Company. The following pages explain how during 2021 the Board had regard to those matters:

Section 172 matter	How the Board had regard to those matters
a. the likely consequences of any decision in the long term	• Business model (page 6) • Decision to acquire Pinnacle (page 106) • Biomass cost reduction (page 18) • Principal Risks (page 76)
b. the interests of the Company's employees	• Workforce engagement (pages 60 and 109) • Diversity and inclusion (pages 60, 96 and 113) • Safety, health and wellbeing (page 57)
c. the need to foster the Company's business relationships with suppliers, customers and others	• Engagement with customers (page 40) • Engagement with suppliers and contractors (page 41) • Supplier Code of Conduct (page 61)
d. the impact of the Company's operations on the community and the environment	• The right biomass (page 45) • Climate positive (page 49) • Nature positive (page 55) • Positive social impact (page 56) • TCFD (page 64) • Climate change risk (page 88) • Engagement with communities and local authorities (page 38) • Engagement with schools and colleges (page 40)
e. the desirability of the Company maintaining a reputation for high standards of business conduct	• Ethics and integrity (page 61) • Culture and values (page 105) • Whistleblowing (page 62) • Corporate Governance Code (page 100)
f. the need to act fairly as between members of the Company	• Shareholder engagement (page 38) • Rights and obligations attaching to shares (page 161)

Engaging stakeholders in the expansion of Cruachan Power Station

In June 2021, we announced plans to pursue the expansion of our Cruachan Power Station (in Argyll, Scotland) which is one of the UK's four pumped storage hydro power stations. Since the 1960s, it has been providing flexible and reliable power and supporting the UK electricity network. Cruachan acts as a giant water battery where excess energy is stored and then released when demand for power increases, helping support the UK network.

Drax has worked with bodies such as the Association for Renewable Energy and Clean Technology, British Hydropower Association and Scottish Renewables. This collaboration has helped to create industry consensus on the key contribution from pumped hydro (and other long duration energy storage technologies) on providing the critical services needed for a zero-carbon electricity grid.

Beyond the energy sector, we worked with industry leaders, environmental NGOs (ENGOs), think tanks and the Scottish Council for Development and Industry's Clean Growth Leadership Group to raise awareness about several projects, including the expansion of Cruachan. These projects will enable the faster deployment of intermittent renewables like wind and solar. We published a joint article with Greenpeace, the Green Alliance, and other energy companies such as SSE Renewables and Highview Power on the need for the UK Government to facilitate the adoption of these technologies and enable companies like Drax to realise projects such as Cruachan's expansion. The Scottish Council for Development and Industry's Clean Growth Leadership Group also recommended pumped storage hydro as the only tried and tested technology that provides the energy storage and flexibility at scale required for a system to be powered by renewable energy.

It is very important that the local community is informed and supportive of Cruachan's expansion. Over the summer and autumn of 2021, we put in place a rigorous engagement programme to ensure that the views of the local community were heard and taken into account. We held a virtual consultation event in July which was followed up by face-to-face meetings at public consultation events in November and December 2021, which we plan to repeat in the Spring of 2022. Given the long-term nature of the project and its construction, we are committed to ensuring that local authorities, stakeholders and the community continue to be consulted and regularly informed of progress and plans.

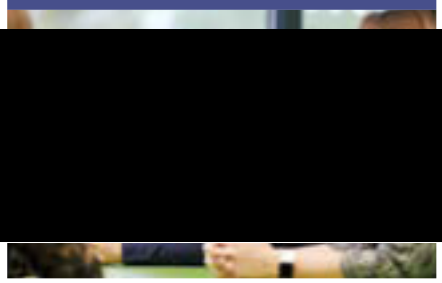
We have issued a dedicated newsletter, and we aim to set up a local liaison group, while additional information about the project is also displayed at the Cruachan Visitor Centre, which reopened in November 2021 and, in a normal year, attracts over 50,000 visitors.

We aim to minimise impacts for local residents during construction while ensuring that the development can provide additional job opportunities locally. We are also considering how Cruachan's expansion can further support the local economy, for example by investigating whether the high-quality rock excavated from Ben Cruachan can be repurposed to support local infrastructure projects. Given that Cruachan is located next to some of the UK's most precious and protected natural habitats, we are working with environmental charities such as RSPB Scotland to consider how we can support local action for restoring nature. We will continue to engage with stakeholders as the project progresses in 2022.

Read more:
https://www.cruachanexpansion.com/

https://www.drax.com/about-us/our-projects/cruachan-2/

Workforce



Key concerns

Diversity and inclusion, response to Covid-19 (both ensuring we keep our colleagues safe, and ensure our ongoing operations to "keep the lights on"), colleague engagement, managing change in the way we carry out our work and relate to others, wellbeing, reward and recognition, culture and values, future strategy, trade union relations, learning and development, career progression, health & safety.

Why we engage

To enable colleagues to be better informed and able to contribute to the delivery of our purpose and strategy. To create a safe and engaging culture and environment where our colleagues feel valued, respected and heard.

We want all colleagues to feel they can grow, through being enabled to realise their goals, and make a meaningful contribution to our strategy, purpose and communities, while building resilience that equips them to respond to the change that is a feature of the Group's activities.

How we engage

We maintain regular dialogue through our workforce engagement (MyVoice) forums (including direct engagement with the Chair and CEO), colleague briefings run by our executive and leaders, weekly updates and Q&A which are provided by our CEO, and our annual engagement and 'pulse' surveys.

Our colleague MyVoice Forums continue to be a key part of our listening strategy. The forums consistently provide us with a view of colleague sentiment and key topics that are on colleagues' minds. We engage with our forums to review the results of our MyVoice surveys and to provide input on key topics such as recognition, diversity and inclusion. For more on the forums, see page 109.

How we respond

We continue to listen to and act on feedback from both the MyVoice forums and other colleague interactions more broadly. This was reflected in the results of our MyVoice Survey – see page 60. We updated colleagues on actions taken through our "You said, we did" campaign.

During 2021 we reviewed our UK family-friendly policies in line with our diversity and inclusion agenda; and successfully ran a pilot Mental Health First Aider programme which we are rolling out across the business (see page 58).

A key focus area was career and development opportunities, responding to a clear theme arising from our MyVoice survey in 2020. The People Development team spent time engaging with the MyVoice forums to better understand what colleagues wanted from our career and development offering. In response, we delivered a range of interactive e-learning sessions designed to support career development – including how to have career conversations and make a career plan, managing change, #IamRemarkable (empowering individuals to celebrate achievements in the workplace and beyond), the introduction of career and development hubs on our intranet, which offer easily navigable learning on key topics, guidance and information about career development.

We carefully consider the impact of decisions on colleagues and where transformation required consultation with colleagues about the closure of offices, or redundancy of their roles, we implemented robust engagement plans. These include the election of colleague representatives where appropriate, individual consultations, and defined communication plans with regular updates to keep colleagues informed. Following key events, the senior leader from the business areas where the decision would be most significantly felt held "all hands" calls or briefing sessions with colleagues. This provided the opportunity for colleagues to ask questions, ahead of any relevant individual or team briefings. Examples during 2021 included the announcement of our financial results, the announcement of the proposed acquisition of Pinnacle (and thereafter on its completion); and changes made in the internal structure of the Group undertaken in the autumn.

You can read more about our activities on **pages 56 to 60**.

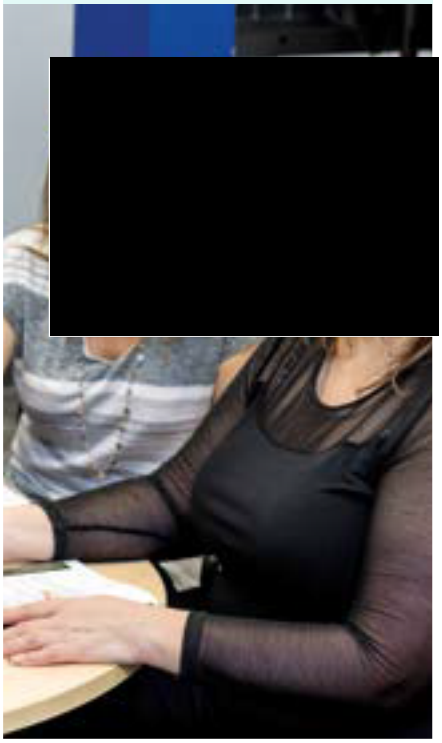
Pinnacle employee engagement

Employee engagement for our Pinnacle acquisition was recognised as a critical aspect of a successful acquisition and integration.

To aid colleague engagement, from day one we set up joint workstreams for groups of Pinnacle and Drax colleagues to work on the integration aspects, ensuring the views, counsel and experience of colleagues in Pinnacle contributed to discussions and decision-making.

The challenges of Covid-19 meant that much of the engagement had to be virtual. Where we were able, leaders from our US business travelled to Pinnacle sites and held "all hands" sessions to meet with colleagues and answer questions. Where this wasn't possible, and on an ongoing basis, we provided video blogs, newsletters, and a Pinnacle specific intranet site. Colleagues could use all these avenues to access information and learn more about Drax.

To ensure that the views and ideas of Pinnacle colleagues are reflected in how we work, we invited Pinnacle colleagues to join our MyVoice Forums from September 2021, and invited them to take part in our 2021 annual employee engagement survey.



Shareholders and investors

Key concerns

Drax biomass strategy, BECCS, third party sales, biomass generation, supply chain capacity, cost of production, financial and operational performance, capital allocation and dividend policy, share price, biomass sustainability, ESG, funding, energy policy and remuneration.

Why we engage

Engagement allows us to understand the concerns and priorities of current and prospective investors and lenders. We can then take these into account in our decision-making in areas such as ESG; executive pay; dividend and longer-term capital allocation policy; as well as strategy.

How we engage

We engage through a wide range of channels including statutory reporting – full-year and half-year results, trading updates, our AGM, Capital Markets Day and our website. We also have an ongoing programme of investor relations meetings led by the Investor Relations team, which includes one-to-one and small group meetings with shareholders and prospective investors, as well as participation in industry conferences. The CEO, CFO and Chief Innovation Officer also participate in the programme. The Chair and Senior Independent Director are available to speak with investors.

Reflecting the constraints on face-to-face meetings, most engagements were via calls and video calls with existing shareholders and new investors.

We also engage on ESG themes, which we have embedded into our ongoing IR programme. During 2021 our Head of IR, Head of Climate Change and Director of Internal Affairs continued a programme of ESG focused meetings with shareholders and investors, primarily concerned with biomass sustainability and carbon accounting.

How we respond

Reflecting feedback from investors, we continued to develop our programme of ESG reporting and engagement, which includes developing our data capture, analysis and disclosure in response to the requirements for TCFD, which we include in this year's annual report on pages 64 to 71. Through our Capital Markets Day we have also set out our updated strategy for biomass, BECCS, and sustainability which investors see as key for our plans for future growth. See below for more details on the Capital Markets Day.

Capital Markets Day

In December 2021, we hosted a Capital Markets Day to update investors on our ambition to become a global leader in sustainable biomass pellets, a global leader in negative emissions, and a UK leader in dispatchable, renewable power. It also covered the role of bioenergy, our sustainability and responsible sourcing framework, BECCS, the importance of flexible generation, and our role in helping the UK to reach net zero. Participants joined both in person and remotely, reflecting a combination of existing shareholders, investors and lenders. The event included a presentation by Dr Alan Knight, Group Director of Sustainability, on our approach to the sustainable sourcing of biomass. (For more on this, see page 17).

The event was accompanied by a live webcast to allow for the inclusion of a broader audience. There was a formal question and answer session and, once the main presentations were over, the opportunity to meet more informally with members of senior management and the Board, including the Chair, CEO, CFO, and Senior Independent Director. Questions focused on BECCS, the long-term cost of biomass and biomass sustainability.

All materials from the Capital Markets Day, together with a video of the presentations and the Q&A session, are available on the website at www.drax.com/investors/announcements-events-reports/presentations/capital-markets-day-2021/

Communities and local authorities

Key concerns

Supporting and investing in regional development and future opportunities for employment, tackling climate change, our local environmental impact, community initiatives and sponsorship.

Why we engage

Drax is an active participant in the communities in which it operates. Strong community relationships and effective engagement strengthen our ability to operate effectively in those regions.

How we engage

We engage regularly with the communities around our businesses through supporting local initiatives, and holding quarterly meetings and formal drop-in sessions.

How we respond

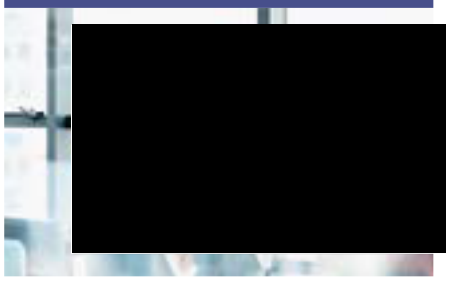
Our Charity Committee has a dedicated fund and considers requests from the community, providing grants to support STEM education, skills and employability, as well as other causes that will have a positive impact local to our operations.

In July 2021, we donated C$50,000 to the Canadian Red Cross to support relief efforts for small communities affected by wildfires in British Columbia. Colleagues have undertaken a range of volunteering and charitable work. This has included outreach to partner schools in our communities, Group-wide fundraising days and colleagues' personal fundraising efforts, for which Drax offers matched funding.

We engaged with local communities on the expansion of our Cruachan Power Station in Argyll, Scotland (see page 36).

As a board member and funding partner of the Galloway Glens Landscape Partnership Scheme, we support its work to create local opportunities for a sustainable future. This work includes the recovery of salmon fish stocks, which is a big issue locally and across Scotland, and working together to support STEM education.

Government and political bodies



Key concerns
Energy costs, decarbonisation, carbon price support, Brexit, Capacity Market, climate change mitigation, biomass sustainability, Renewable Obligation Certificate (ROC) cap, development of policy to support BECCS, COP26, unabated coal closure, Covid-19, long duration energy storage technologies, industrial Cluster Sequencing for Carbon Capture Usage and Storage Deployment.

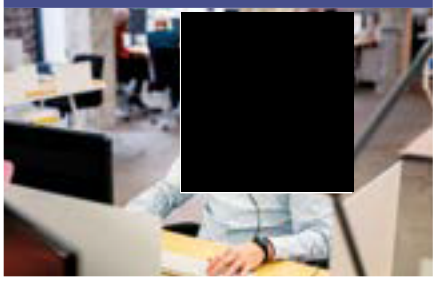
Why we engage
Constructive engagement with governments and political bodies is key to achieving Drax's purpose.

How we engage
We engage with government bodies in the UK, EU, US and Canada on a range of topics including decarbonisation, BECCS, and the need for system stability and flexible generation. While Drax makes no political donations, it is important that we engage with politicians, political parties, policy makers and other stakeholders. For example, in the UK we engage with political stakeholders at party conferences and through all-party groups. You can read more about this on page 162.

Our political engagement policy, developed in direct response to shareholder feedback, is unchanged from 2019 and is available on our website: www.drax.com/about-us/drax-political-engagement-policy/

How we respond
In early 2021, Will Gardiner participated in regular industry-wide forums on the response to Covid-19 with the Secretary of State for Business Energy and Industrial Strategy and the Minister for Energy. Director of Corporate Affairs, Clare Harbord, was a member of the Scottish Government's Green Recovery Taskforce, to support Scotland's recovery from Covid-19. As our BECCS project reaches a critical phase in its development, we have increased engagement with Government and political stakeholders, including at the Conservative and Labour party conferences. We attended COP26 and participated in several events, panel discussions and workshops, discussing matters such as ways to reduce emissions in the UK energy system, our coal to biomass conversion and BECCS.

Non-governmental organisations (NGOs)



Key concerns
Biomass sustainability, negative emissions and bio-energy with carbon capture and storage, long duration energy storage, climate change.

Why we engage
Engagement with NGOs helps us to challenge and enhance our practices on behalf of the wider society. We warmly welcome engagement with NGOs and the advice and guidance they bring to our operations.

How we engage
We engage directly with NGOs on a wide range of topics from biomass sustainability and negative emissions through to pumped storage hydro and long duration energy storage. For example, in 2021, we held a series of roundtables and bilateral meetings with UK and US based ENGOs on the future of sustainable biomass with a view to enhancing our own practices. We also jointly supported (with Greenpeace and the Green Alliance) a call to the UK Government to support the deployment of long-duration energy storage technologies, such as pumped hydro. We directly support ENGO activities across and around our hydro sites at Lanark and Galloway.

How we respond
Following on from the engagement around our Responsible Sourcing Policy, Drax continued in 2021 to engage with ENGOs and other civil society organisations. We shared the innovative work undertaken to evidence the sustainability of our sourcing practices, in particular, the Catchment Area Analysis and Healthy Forest Landscapes projects. Drax has proactively sought to engage with organisations that have expressed concerns regarding the role of biomass to understand and address those concerns.

Looking ahead, Drax will reflect on the feedback received from the ENGO roundtable engagement and consider what additional steps we should take to address the points raised by ENGOs.

Engaging stakeholders in the development of BECCS

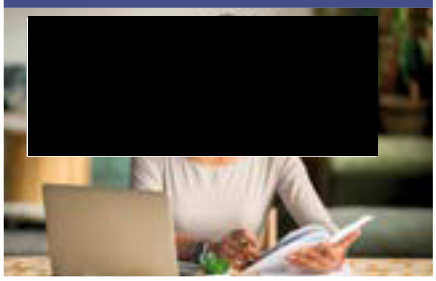
Throughout 2021, our engagement around BECCS focused on three core themes:

Negative emissions: a key focus has been raising awareness amongst stakeholders, including the critical role of negative emissions technologies, such as BECCS, removing CO_2 from the atmosphere, mitigating emissions in hard to decarbonise sectors of the economy such as aviation and agriculture. In the UK, we've engaged with key advisory bodies to Government including the Climate Change Committee on its 6th Carbon Budget Advice to Government, and the National Infrastructure Commission on its report on Engineered Greenhouse Gas Removals. We have worked with several other partners to create the Coalition for Negative Emissions – a multi-stakeholder initiative committed to the sustainable scale-up of BECCS and other negative emissions technologies globally.

The levelling-up agenda: we have assessed the prospect of thousands of new jobs and career opportunities being derived from delivering BECCS, and have collaborated with key stakeholders across Yorkshire, including trade unions, business groups such as the Confederation of British Industry (CBI), the Hull and Humber Chamber of Commerce, the York and North Yorkshire and Hull and East Yorkshire Local Enterprise Partnerships, and local businesses. We consulted with local communities during the non-statutory and statutory phases of our Development Consent Order application.

Supporting UK climate leadership abroad: we have also engaged on the export potential of BECCS as a technology, engaging with representatives from national and regional governments across the world that are keen to learn more about how BECCS could be used in their countries, culminating in an extensive programme of activity around COP26 in Glasgow. In 2022, we will continue to meet with local and regional stakeholders around the planning and consenting aspects of the project as well as commercial opportunities for our supply chain. We will engage with policymakers around key future government publications such as the Bioenergy Strategy and the planned consultation on business models for BECCS power projects.

Customers



Key concerns
Controlling energy costs, energy efficiency, managing their own emissions/carbon footprint, security of supply and changes in the energy market. How Drax has responded to Covid-19 and supported businesses, particularly smaller business that may have struggled. Customer service support, Third Party Intermediary (TPI) relationships, sales and product details, energy efficiency, managing their own carbon footprint, and new products and services such as smart meters and electric vehicles.

Why we engage
Engagement allows us to build strong relationships with our customers, so we have a better understanding of their needs to improve customer service, develop relevant products and keep them informed.

How we engage
Our Customers business engages with our customers through a variety of channels, including social media, our website, by phone, and through our complaints procedure. Large Industrial and Commercial customers and TPIs have dedicated account managers and service delivery managers.

How we respond
During the unprecedented rise in energy prices, we had regular communications with our customers and TPIs to ensure they were informed of what was happening and understood the likely impacts on their costs. We also communicated with all out-of-contract customers advising them how they should respond to switch from higher tariffs, and explaining how to contact us to avoid debt.

We have a regular newsletter for our TPIs and large Industrial and Commercial customers, which we use to update them on initiatives, products, compliance and energy market changes. While rebranding Haven Power to Drax we ran a three-month engagement plan with our customers and TPIs, so they were well informed and aware of the changes, minimising impact.

Regulators and network operators

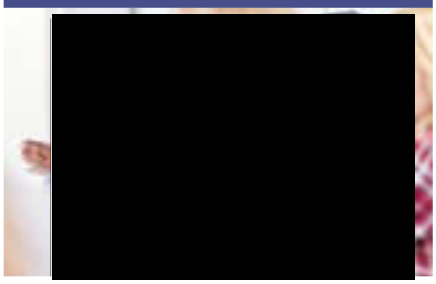
Key concerns
Regulatory and energy market reform, network charging reform, smart meter installation obligations, energy trading compliance, environmental compliance, Health & Safety compliance, compliance with biomass sustainability policy, ROC compliance, and business ethics compliance, including anti-bribery and corruption, human rights and data privacy.

Why we engage
Engagement with Ofgem, BEIS and the Electricity System Operator allows us to promote the delivery of a secure, reliable energy system offering best value for consumers. We support a level playing field for all technologies, enabling an efficient and investable market. In addition, engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

How we engage
We engage directly with stakeholders and through industry associations. For example, we engage with relevant teams at Ofgem, BEIS and National Grid on the growing need for stable markets and appropriate investment mechanisms to provide sufficient flexible and dispatchable generation and system support services to the grid. We also engage with Energy UK and the Sustainable Biomass Programme to promote best practice and progressive reform in policy, licences, rulebooks and standards.

How we respond
We have engaged bilaterally with stakeholders and responded to public consultations, for example, consultations from Ofgem and BEIS on the need for large-scale long-duration storage, reform of the Capacity Market, reform of the Renewables Obligation payment arrangements, and the strategic review of the microbusiness sector. We've also continued to work with regulators and UK Government in response to Covid-19 to protect our customers and colleagues, and options to mitigate the impact of rising wholesale energy costs and supplier failures on consumer bills.

Schools and colleges



Key concerns
Skills to support future talent and employment needs, STEM and green jobs, "levelling up", local environmental impact, community initiatives and sponsorship.

Why we engage
We aim to improve skills, education, employability, and opportunities, with a particular focus on supporting under-represented sections of society. Engagement with schools and colleges allows us to promote interest in science, engineering and the energy sector, and support educational institutions in developing the workforce of the future.

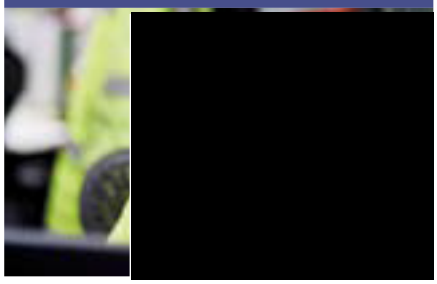
How we engage
We engage directly with schools and colleges, offering virtual learning opportunities and free access to our site tours for students. Our partnerships with organisations such as Teach First support the delivery of our activities with schools.

How we respond
We expanded our online educational offering in 2021, delivering virtual tours, university webinars, and our "Drax in the Classroom" interactive webinars for schools, and ran several virtual work experience placement weeks for students in Year 10 and above.

In 2021, we launched a STEM activity box, created with Doncaster College and University Centre, which provide learning materials and resources related to recycling. We also collaborated with Selby College to successfully bid to the Strategic Development Fund (SDF) to develop and deliver a short course on BECCS, aiming to equip a range of colleagues, supply chain workers and college students with knowledge of how BECCS works, and wider knowledge of carbon capture technology, alongside an ability to apply the learning practically. We fund PhD studentships on topics related to grid stability and storage, and bioenergy feedstocks.

You can read about our work supporting young people and teaching them the skills for a green economy on page 56.

Suppliers and contractors



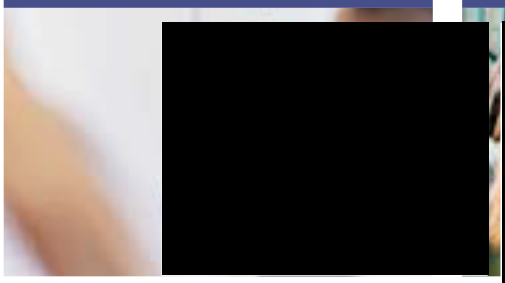
Key concerns
Expected standards of ethical and business conduct, compliance with laws, satisfactory responses to our due diligence requests, operating consistently across the globe, adhering to the Prompt Payment Code, provision of guidance regarding statutory obligations (such as Modern Slavery Act and whistleblowing laws) and passing on relevant obligations to supply chains.

Why we engage
We're committed to conducting business with honesty and integrity and in accordance with applicable laws and regulations. Strong relationships with our suppliers and contractors allow us to work together to ensure we identify and properly manage any health and safety, sustainability, ethical or supply chain risks. These relationships help us to promote high standards and ensure realistic, and shared, expectations on project delivery and ethical, sustainable business.

How we engage
Where relevant, the Procurement, Business Ethics, and Sustainability functions at Drax engage directly with suppliers around key issues. This is to ensure our ethics, values, Supplier Code and Responsible Sourcing policy are effectively incorporated into and upheld throughout our supply chains. We seek the views of suppliers and contractors to collaborate on improvements in standards and meeting our (and their) obligations under law and regulations in keeping with our values.

How we respond
We continue to roll out our Supplier Code to suppliers, and encourage them to pass on those obligations to their supply chains (including the provision of a whistleblowing service). We are strengthening our business ethics clauses in our standard terms, including those for use in the US and Canada. We continue to participate in the UN Global Compact, including its Modern Slavery Working Group. We benchmarked our approach to third party ethical due diligence with peer companies including UN Global Compact members, and we enhanced our Business Ethics induction process for relevant non-permanent workers.

Think tanks and academics



Key concerns
Carbon accounting, carbon pricing, biomass sustainability, future energy policy, BECCS policy.

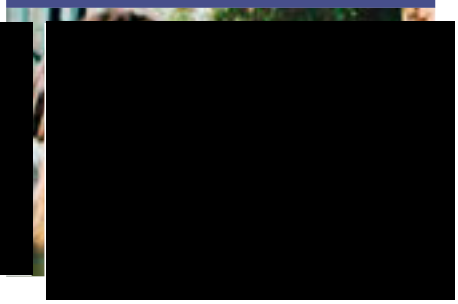
Why we engage
This allows us to keep abreast of the latest thinking from outside the business, consider likely policy developments across a range of areas and anticipate new opportunities for innovation and collaboration.

How we engage
We engage through direct participation in events, roundtables and workshops, and formally in writing. Our Independent Advisory Board (IAB) on sustainable biomass advises Drax on feedstock options, forest science and the role of sustainable biomass in our climate change mitigation activities. This allows us to follow the latest scientific research and best practice. We also engage with academics including recently on new ventures, such as domestic sourcing opportunities for energy crops. You can read more about the IAB on page 48.

How we respond
In response to concerns raised by think tanks and academics regarding biomass carbon accounting criteria, we publish various data gathering tools, including forest catchment area analyses. We publish reports commissioned by our IAB in partnership with external providers such as Ecometrica. These reports summarise the key elements of carbon accounting for biomass, making recommendations to the sector on how the carbon benefits of bioenergy can be fully realised. In response to concerns raised on biomass feedstock sustainability and availability, we partnered with McKinsey and Company through the Coalition for Negative Emissions to identify feedstock availability globally for BECCS. We also partnered with WPI, NFU and Carter Jonas to commission research into the policy enablers for UK-grown energy crops for BECCS.

We sit on steering groups of several multi-university research projects and trade bodies providing industry input, for example the SuperGen Bioenergy consortia in the UK, Bioenergy Europe and the World Biomass Association.

Trade and industry associations



Key concerns
Energy policy, reputation of energy sector, reputation of biomass sector, health & safety best practice, Brexit.

Why we engage
Active membership of a wide range of trade and industry associations allows us to keep track of best practice in our sector and other industries.

How we engage
We engage directly with trade bodies focusing on energy and sustainable forestry. For example, Drax is an active member of Energy UK, Biomass UK and the CBI.

How we respond
Our Director of Corporate Affairs sits on the Board of Energy UK which, in 2021, took a role in advising the UK Government on areas of focus ahead of the end of the EU transition period, and on matters relating to security of supply and affordability in response to global energy price rises. We also have representatives on each of Energy UK's main Committees and Working Groups, which discuss shared industry challenges. We increased our engagement with the CBI, with our Director of Corporate Affairs sitting on the Energy and Climate Change Board, and we were pleased to welcome the CBI's new Director General, Tony Danker, on his visit to Drax Power Station in 2021.

We actively engage on shared interests in the energy sector such as carbon pricing, skills and education. We work with businesses from all sectors on shared national and regional priorities. This includes being members of Scotland's Economic and Social Forum and the Northern Powerhouse Partnership, where Andy Skelton, CFO, is a Board member. We also engage with emerging bodies including the Yorkshire and Humber Climate Commission.

As part of the development of our BECCS project, we have become patron members of the two nearest chambers of commerce to Drax Power Station, West and North Yorkshire, and Hull and Humber. We look forward to working with the chambers on a programme of supply chain engagement for BECCS, ensuring local businesses benefit from our proposed investments.

We care about what matters

We aim to be a sustainable business with profitable growth that has a positive economic, social and environmental impact. We are committed to enabling a zero carbon future, starting with our direct operations and our ambition to become carbon negative by 2030.

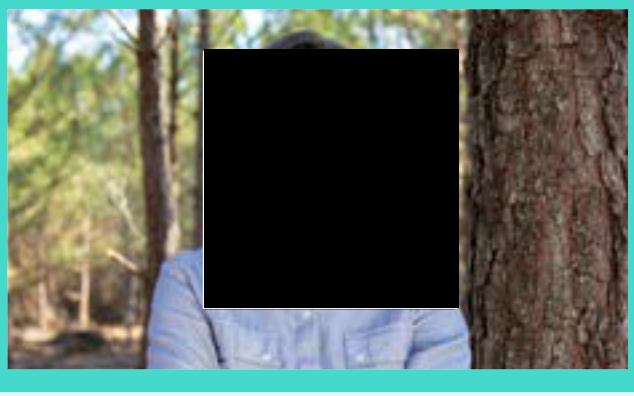
"We are focused on sustainable forest management and are working to have a forest landscape that's healthy and biodiverse."

Our North American business is part of the Morehouse Family Forests Initiative (MFFI) in north east Louisiana and south east Arkansas, to encourage sustainable forest management. The MFFI works with thousands of small landowners and connects them with natural-resource experts.

There was a specific focus on restoring or expanding the open-pine habitat that supports many endemic species.

The scheme has helped quail return to land surrounding our Morehouse Bioenergy pellet plant in Arkansas after an absence of 40 years. This is a positive indicator of a forest landscape that's healthy and biodiverse, and demonstrates the positive effect that actively managing the forests can have on an area in a relatively short period of time.

Kyla Cheynet
Sustainability Director



Woody biomass sourced by Drax Power Station in 2021 that was SBP compliant

98%

Apprentices started or in continued development at Drax in 2021

56

In this section

Sustainable Development

Achieving a positive economic, social and environmental impact is key to delivering long-term, sustainable, value creation.

Find out more on **pages 44 to 63**

Taskforce on Climate-related Financial Disclosures (TCFD)

Tackling climate change is at the heart of our purpose and Drax is committed to helping the UK and the wider world to achieve its climate targets.

Find out more on **pages 64 to 71**

Sustainable Development

At Drax, we believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. We are committed to creating a business model where financial performance, value creation and sustainability outcomes are aligned.

Drax sustainable development framework

As our global footprint grows, we recognise the need for an ambitious plan shaped around the global sustainability agenda, whilst recognising our responsibilities to the local areas and communities where we operate. During 2021, we appointed a Group Director of Sustainability to drive sustainability performance through a co-ordinated strategy across our expanded business. The Board and the Executive Committee were engaged in the formation of a new sustainable development framework, defining three sustainability outcomes for the business, and aligning our objectives to the UN Sustainable Development Goals (SDGs). In 2022, we will focus on defining actions and accountabilities, to deliver our sustainable development framework outcomes across the business.

Sustainability governance

The Board has ultimate responsibility for the Group's sustainability performance and receives quarterly environment, social and governance updates from the CEO. The Executive Committee, chaired by the CEO, oversees performance.

The Group Director of Sustainability leads Drax's sustainability programme and reports to the Director of Corporate Affairs, a member of the Executive Committee.

Sustainability priorities

We identify the sustainability priorities that are material to our business and important to our stakeholders.

Our stakeholders' priorities evolve over time, and it is important that we regularly review and respond, to address expectations and effectively manage risks and opportunities. In 2021, we conducted a materiality assessment exercise. Our process included a desk-based review of internal and external sources, and we interviewed internal stakeholders to gather an initial understanding of the views of their external stakeholders, reflecting their experience and learning from engagement with external stakeholders (see page 34). From this, we produced an initial list of material priorities (not ranked), to inform the topics covered in our disclosure, and the actions we will deliver within our sustainable development framework.

- Carbon emissions
- Forests and biomass acceptability
- Biomass supply chain emissions
- Fair and responsible products
- Climate risk and opportunity
- Safety, health and wellbeing
- Skills and green jobs
- Environmental pollution and impact
- Biodiversity
- Diversity and inclusion
- Supply chain human and labour rights
- Energy consumption
- Employee turnover
- Communities local to our sites
- Responsible sourcing
- Business ethics and integrity
- Executive remuneration

During 2022 we will work with a third party to build on our internal exercise, to refine our priorities list, produce a materiality matrix, and externally scrutinise this tool. Regular review of our sustainability priorities will be fed back into the business, to ensure risks are managed and that we are responding effectively as a business.

ESG Data Supplement
Our ESG Data Supplement provides further environment, social and governance performance data.
See **www.drax.com/sustainability**

The right biomass

Our climate positive, nature positive, and people positive sustainability outcomes will only be delivered by sourcing, producing and using the right biomass

Pinnacle: new global supply

The acquisition of Pinnacle in April 2021 strengthens Drax's position today as a vertically integrated producer and consumer of biomass, and a supplier to customers internationally – with an enlarged and geographically diversified supply chain.

We use a range of third-party sustainable certification systems across our supply base, all of which implement independent annual audits. These include the Sustainable Forestry Initiative (SFI), Forest Stewardship Council® (FSC®), schemes endorsed under the Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Biomass Program (SBP). 100% of Drax-owned pellet plants hold SBP certification and underlying SFI, FSC® or PEFC Chain of Custody certification.

During 2021, we established actions for the integration of Pinnacle into our Pellet Production operations, focused on health and safety, operational efficiency, and sustainability, to standardise our Group-wide approach. Areas of focus during the year included an update to the mass balancing system for fibre traceability and exploring where reductions in carbon are possible within scope 1, 2 and 3 emissions.

Pathway of fibre produced and used by Drax

Old Growth Forest and Indigenous Peoples

Our expansion into additional geographies brings specific sustainability considerations for the business. Our acquired pellet plants in British Columbia (BC) and Alberta, Canada, operate in regions that include old growth forests. Our approach continues to evolve as the provincial Government of BC embarks on a multi-year comprehensive review of old growth forests, including interim protections for some of these forests until the review is completed. We are supportive of the review process currently underway and we will follow the development of new policies related to old growth management closely, and ensure our procurement policies and procedures are aligned.

Forest management in BC is driven by other forest-related industries, particularly lumber. Residues left on-site are mandated by regulation in BC to be burned to help control fire and disease risk. It is estimated that each year in BC, circa 10 million m3 of harvest residuals are burned, rot, decay or become fuel for future wildfires, following harvests. Using this harvesting residue material for biomass production therefore makes good sense for both forests and the climate.

The SBP-endorsed regional risk assessment (RRA) for BC was approved during 2021. In response to the RRA findings, we have identified potential mitigation measures to minimise the specified risks identified by the RRA and to ensure feedstock used at our pellet plants does not negatively impact those risks. The RRA, paired with our mitigation measures, will strengthen our transparency of raw material sources and lead to a better understanding of the dynamics between the biomass sector and the wider forest management sector.

We also recognise the importance of Indigenous Peoples in Canada, including their history, traditional knowledge and culture. We respect the role of First Nations as decision makers and the principles of the United Nations Declaration on the Rights of Indigenous Peoples, which has formally been adopted in BC. In 2022, we look forward to building on our relationships with First Nations including those who are partners in our business, such as the Witset Nation in Houston, BC. We were also proud to support a number of important Indigenous-led initiatives and we plan to expand on these actions.

The right biomass >

Drax Group biomass feedstock sources in 2021

In 2021 our biomass was sourced from established, responsibly managed working forests in the US south, Canada, Europe, Brazil, and Russia.

Drax Group sources of fibre

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Country total (t)
USA	1,795,400	358,018	1,171,304	1,738,747	–	73,602	5,137,071
Canada	1,459,514	153,986	18,131	181,579	–	–	1,813,209
Latvia	121,618	–	108	597,391	–	–	719,117
Estonia	86,594	–	26,615	96,273	–	–	209,482
Brazil	–	–	–	170,562	–	22,368	192,930
Portugal	19,144	61,045	40,045	66,685	290	–	187,209
Belarus	107,828	–	–	2,401	–	–	110,229
UK	–	–	–	–	–	57,023	57,023
Russia	508	–	–	–	–	33,321	33,829
Other European	5,090	–	–	181	–	5,320	10,591
Total	3,595,695	573,048	1,256,204	2,853,819	290	191,634	8,470,690

Note: For 2021 feedstock figures reported, December data has been calculated based on weighted average sources of fibre for January to November 2021 actual data

For additional breakdown of feedstock sources for Drax Pellet Production and Drax Power Station respectively, see **ESG data supplement www.drax.com/sustainability**

Biomass supply chain transparency is a key element of our approach. We provide additional supply chain information at Drax ForestScope (www.forestscope.info). We respond annually to the CDP Forests questionnaire and achieved a rating of B in 2021 (2020: B).

Development of alternative fuel sources for sustainable biomass

Woody biomass has formed the majority of the current feedstock used by Drax for biomass power generation. Over the last decade, as part of our work on biomass, we have screened hundreds of non-woody biomass materials, and we have been building on this knowledge to explore the wider use of these alternative fuels.

Alternative fuel sources may include materials such as agricultural residues – sugar cane residues (bagasse), peanut shells, sunflower or oat husks – all residues from existing production processes. These materials can provide the opportunity to utilise surplus or waste biomass for power generation, whilst providing options to reduce costs, diversify and strengthen security of supply. As such, alternative fuels form one strand of our response to achieve our strategic objective to be a global leader in sustainable biomass, underpinned by safety, sustainability and cost reduction.

Our work on alternative fuels has assessed in detail the viability of new products, considering new geographies, forms of contracting, chemistries and operational characteristics. During the year, we progressed our work to pursue some of these fuel options to a more advanced stage.

Innovating to utilise process residue (Lignin)

Lignin is a component of wood – and one source we have pursued is lignin as a by-product or 'process residue' of hydrolysis ethanol production, from a facility that ceased production in 2005. As a waste material with a higher calorific value than conventional white wood pellets, lignin presents an attractive and competitive addition for use as alternative fuel within our feedstock portfolio.

At Drax, we have a history of innovation and seeking new ways to deliver value. Advancing the exploration of this material has required extensive collaboration, including engagement with the Environment Agency on "End of Waste" status, and in our approach to ethical due diligence.

Partnering on UK energy crops

We are exploring opportunities to source a proportion of BECCS feedstock from UK grown energy crops. In September 2021, we announced a one-year partnership with the National Farmers' Union of England and Wales, to explore opportunities to scale up domestic perennial energy crop production and help the UK meet its ambitious climate goals.

Research is underway to understand the opportunities and risks of domestic sourcing, with considerations including biodiversity, landscape, soil carbon and health, land use change, and land management systems. Subject to the investigatory work, we expect to develop a plan for the expansion of energy crops to support our UK BECCS investment, identifying where and how they can be best grown and used sustainably.

The right biomass

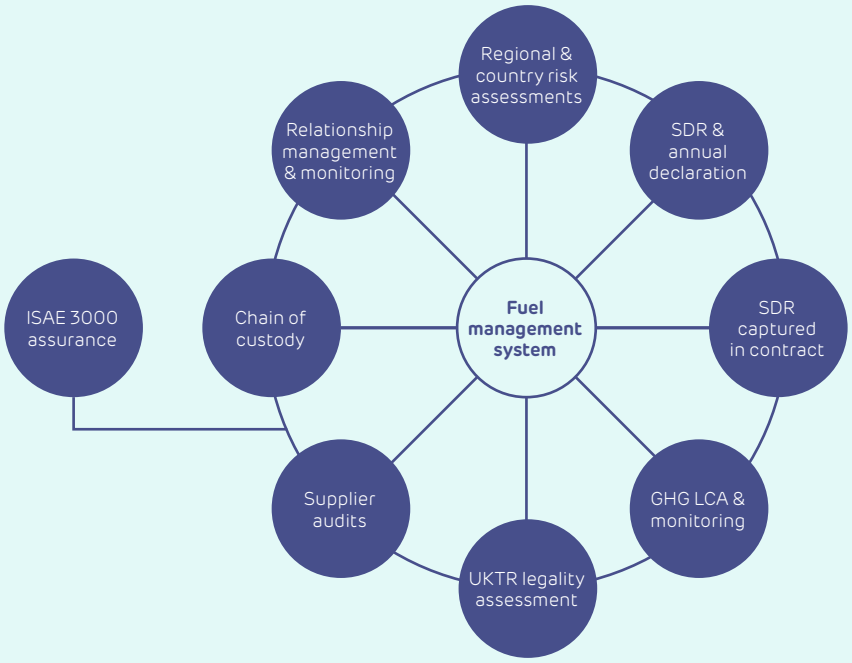
Our sustainability due diligence process is designed to ensure the biomass we use for generation at Drax Power Station is sustainable and compliant with relevant legislation. Woody biomass supplier compliance is evidenced by SBP, SFI, PEFC and FSC® external certification schemes, alongside our internal assurance system and third-party audits commissioned by Drax.

Our Group Sustainability Policy and Supplier Code of Conduct outline our requirements and are evidenced and included in biomass supplier contracts.

Our Responsible Sourcing Policy for Biomass outlines our forest biomass sustainability commitments. This is to provide further assurance that the sustainable biomass we source makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

As part of our sustainability due diligence process, raising concerns to our committees is one method we use to mitigate risk. This is dependent on the level of risk within the supply chain and geography, and outcomes from independent commodity and country risk assessment reports. In 2021, two matters regarding prospective alternative fuel supply country-level risks were escalated to the Group Ethics and Business Conduct Committee or the Executive Committee. This process ensures potential risks are appropriately scrutinised and that additional measures and requirements are implemented, as appropriate.

Drax sustainability due diligence process



ISAE
International Standard on Assurance Engagements

LCA
Life Cycle Assessment

SDR
Sustainability Data Return

GHG
Greenhouse Gas

UKTR*
United Kingdom Timber Regulation

* The UKTR applies from 01 January 2021 and the requirements remain the same as under the European Union Timber Regulation (EUTR)

ISAE 3000: In accordance with regulatory requirements of the Renewables Obligation (RO) and the Investment Contract for the CfD, sustainability data is audited annually in a limited assurance engagement as prescribed in ISAE 3000 (revised). Bureau Veritas conducted the audit for the 2020/21 compliance year and concluded that the data reported was complete and accurate and that Drax had designed and implemented effective internal controls for ensuring the completeness, accuracy and validity of reported data.

Further details of our due diligence process are available at **www.drax.com/sustainability**

Responsible Sourcing: A policy for biomass from sustainable forests is available at **www.drax.com/sustainable-bioenergy/responsible-sourcing/**

Our forest biomass sustainability commitments

1. We will reduce carbon dioxide emissions	2. We will protect the natural environment	3. We will support people and communities	4. We will invest in research, outreach and intervention
We are committed to ensuring our use of biomass makes a positive contribution to tackling climate change and fulfilling the UK's net zero by 2050 target.	We recognise our duty to keep forests thriving and to respect the many benefits they bring, including carbon storage, protection of soil and water quality, supporting biodiversity and provision of habitat.	From state-owned forests to smallholdings, and from Canada and the US southeast to the Baltic states, forest owners, forest workers and communities in our sourcing areas are bound by their common reliance on forests for employment, wellbeing and quality of life.	The strength of our collaboration with others will improve the sourcing choices we make. We are committed to working with governments, non-governmental organisations, academia and other stakeholders to continually improve biomass sourcing and develop best practice.

Catchment Area Analysis

We are committed to sourcing sustainable biomass that contributes to the long-term maintenance of growing forest carbon stock and productivity, and that helps to improve the health and quality of forests. That's why, in addition to our due diligence processes, we engage expert third parties to conduct Catchment Area Analyses (CAA) for the regions from which we source.

The CAA reports, written by independent specialists, evaluate the trends occurring in the forestry sector around the pellet plants from which we source, to determine what impact pellet demand may have had in influencing those trends, positively or negatively. The key metrics examined include:

- Deforestation and degradation
- Changes in forest management practice
- Wood prices and other markets that use wood
- Amount of carbon stored on landscape (growing stock)
- Sequestration rate of carbon (productivity of forests)
- Harvesting levels vs productive capacity of the area

The main purpose of the CAAs is therefore to provide evidence that we are meeting the carbon components of our Responsible Sourcing Policy for Biomass commitments. This allows us to make informed sourcing decisions.

We began our CAA process in 2019. As at 2021, we have completed nine CAAs covering pellet plants in the following geographies: Latvia, Estonia, part of central British Columbia (Canada), with a second in British Columbia underway, the Chesapeake region in Virginia and North Carolina (US), south east Georgia (US), northern Florida (US), and around Drax's pellet plants in Mississippi and Louisiana (US). These catchment areas provided around two thirds of Drax's supply volume in 2021.

In the geographies examined so far, data collected through our CAAs provides robust evidence that we are meeting the carbon components of our Responsible Sourcing Policy for Biomass commitments. The CAA reports and summaries are publicly available at www.drax.com/sustainability/sustainable-bioenergy/catchment-area-analyses/. Our intention is to complete CAAs for the remaining supply areas by 2023. However small areas or new entrants to our supply list on an annual basis may mean this cannot be entirely complete (i.e. not 100%).

During 2021, our Independent Advisory Board (IAB) discussed the robustness of our work to demonstrate the forest carbon aspects of our Responsible Sourcing Policy for Biomass through the CAAs. The IAB noted the breadth of data collected and made recommendations to further improve the analysis, including statistical approaches to data analysis, and further independent review of the reports.

Healthy Forest Landscapes

Drax is jointly pioneering the Healthy Forest Landscapes (HFL) approach with Earthworm Foundation. Earthworm is a non-profit organisation that focuses on responsible sourcing and is experienced in working with companies to develop landscape-scale approaches in commodity supply chains.

HFL aims to provide an evidence-based approach to measure and evaluate the ecological, social and economic impacts in our supply catchment areas. The HFL approach measures changes in the forest landscape using empirical evidence such as data from government statistics and input from remote sensing technologies, such as earth observation from satellites. HFL also uses an Earthworm-developed socio-economic evaluation methodology to assess community wellbeing.

HFL assesses four key metrics – forest cover, carbon stock, biodiversity and community wellbeing – which will be used across all our sourcing areas. The HFL approach is designed to enable Drax to actively identify opportunities to make appropriate interventions which support healthy forests, communities, or biodiversity.

HFL analysis has been completed for Amite, Morehouse and Chesapeake in the US, and was commenced for British Columbia in Canada in 2021. In 2021, our work has focused on identifying appropriate interventions and responding to the reports we have received.

Over the next four years, we aim to roll out the HFL approach across all our wood source catchment areas. Ultimately, this will allow Drax to track and report our specific and aggregate impact on the four key metrics of forest landscape health in a timely and transparent manner.

ArcGIS: exploring the use of map-based technology

Drax is committed to transparency and we are continually striving to find new and better ways to show our data. In September 2021, we invested in ArcGIS, an online geographic information system (GIS). This software will help us to display our data through map-based technology.

A GIS is a computer system for creating, managing, analysing and displaying data related to positions on Earth's surface. Connecting data to a map enables us to better identify and understand patterns and relationships by displaying different types of spatial data – such as street, building and vegetation data – on one map.

Using ArcGIS, we aim to enhance how we manage and share data regarding our woody biomass sourcing, including improving the accessibility of our data by exploring new ways to communicate visually with our stakeholders.

Independent Advisory Board

Our IAB of scientists, academics and forestry experts is led by Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. The IAB provides independent advice on feedstock options, forest science, optimisation of carbon impacts, and the role of biomass in supporting the transition to a net zero energy system. The advice and scrutiny from the IAB is intended to assure stakeholders that Drax will keep our Sustainability and Responsible Sourcing policies under review and that the biomass we use follows the latest scientific research and best practice.

In 2021, the IAB had four meetings and discussed topics including: Drax's new Healthy Forests Landscapes programme; the acquisition of Pinnacle with forestry experts from British Columbia, Canada, joining the conversation; an update on Drax's biomass scrutiny work which involved in-depth discussions on our biodiversity work specifically; and, business updates including air quality work at Drax. We publish the IAB's recommendations to Drax and the minutes from each meeting on our website.

For more information see **www.drax.com/sustainability/sustainable-bioenergy/independent-advisory-board-on-sustainable-biomass/**

Climate positive

Our ambition is to become carbon negative by 2030 through BECCS, whilst reducing our remaining indirect emissions by a further 42%

Taskforce on Climate-related Financial Disclosures

We are committed to the management and disclosure of our climate change risks and opportunities, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our Climate Policy outlines our approach (www.drax.com/about-us/compliance-and-policies).

See our TCFD disclosure on page 64

Carbon emissions

Tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas.

Climate positive by being carbon negative

Drax's ambition is to become carbon negative by 2030, using technologies such as bioenergy with carbon capture and storage (BECCS) to remove more carbon from the atmosphere than we produce throughout our direct business operations (scope 1 and 2).

Our Group target is to achieve net zero across our scope 1, 2 and 3 emissions by 2030. We plan to achieve this by reducing emissions as far as possible while using removals delivered through BECCS to neutralise our remaining emissions.

We are committed to the Science Based Targets initiative (SBTi). In 2021, we submitted our targets to the SBTi for validation and these targets are outlined on page 71 (see metrics and targets).

To align with our SBTi targets, we intend to rebaseline our carbon emissions data, to ensure comparability to our 2020 base year going forward.

Innovating to decarbonise our business

One of our strategic objectives is to be a global leader in negative emissions. At Drax Power Station, we are developing options for BECCS, and targeting 8Mt p.a. of negative emissions by 2030. Our aim is to make Drax Power Station the world's first carbon negative plant at scale.

A provider of dispatchable, renewable power

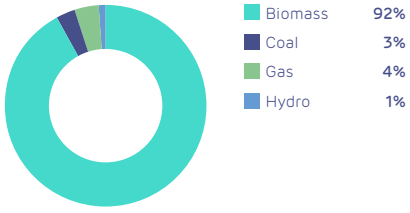
Our Generation business operates a portfolio of flexible, renewable energy assets to support the system's growing use of intermittent renewable energy. In 2021, 93% of the power generated by Drax was renewable.

Our Customers business is a leading supplier of renewable sourced electricity to businesses across the UK and provides energy services and a route to market for 2,322 renewable generators. 100% of the electricity procured and supplied by Drax and Opus Energy during the 2020-2021 Ofgem reporting year was from renewable sources. Our Customers business also sold 2.4TWh of gas to customers in 2021.

Our Customers business fuel mix disclosures are available at: energy.drax.com/support/fuel-mix-disclosure/ opusenergy.com/our-energy-sources/

Power generation mix in 2021[1]

(% total output)



(1) Commercial generation output

Climate positive >

Understanding our carbon emissions

Scope 3	Scope 1	Scope 2	Scope 3
Upstream	**Direct emissions**	**Indirect emissions from electricity**	**Downstream**
• Fuel source supply chains (coal, biomass, natural gas) • Supply of sludge to Daldowie • Biomass transport from Drax pellet plants to Drax Power Station • Utilities as part of lease contracts • Emissions from operational and capital purchases • Business travel • Employee commuting	• Coal and natural gas power generation • Methane and nitrous oxide emissions from biomass generation • Pellet plant operations • Pellet port operations • Large plant vehicles • Flue gas desulphurisation systems • Company vehicles • Fluorinated gases from heating, ventilation and air conditioning systems	• Hydro electricity consumption • Cruachan electricity imports • Generation electricity consumption • Pellet Production business electricity consumption • Office sites electricity consumption	• Recycling, processing and disposal of waste • Reuse and reprocessing of ash and by-products • Transmission and distribution • Emissions from use of sold electricity • Emissions from use of sold natural gas • Emissions from transport and use of sold pellets

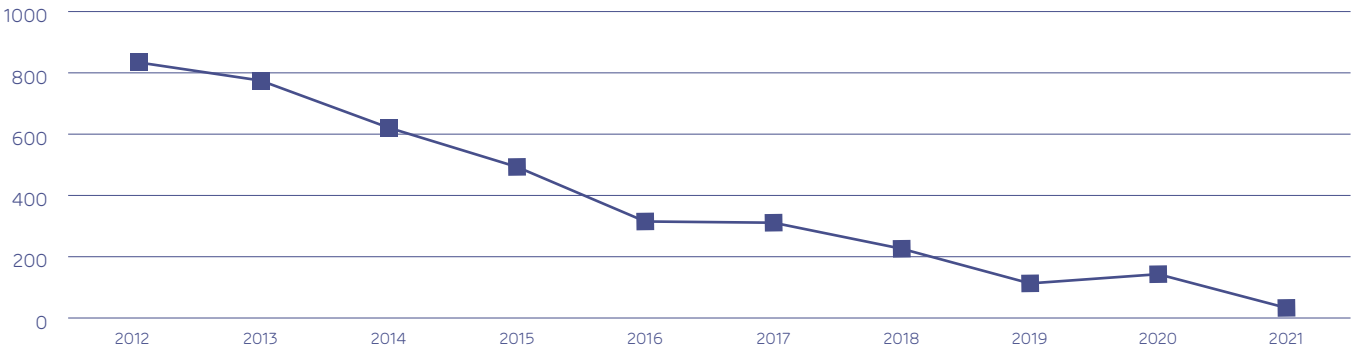
Carbon and energy performance

	Unit	2021	2020	2019
Carbon emissions				
Generation CO_2 emissions[1]	$ktCO_2$	**525**	2,682	1,958
Group total scope 1[2]	$ktCO_2e$	**932***	2,762	2,049
Group total scope 2 (location-based)[3]	$ktCO_2e$	**323***	318	322
Group total scope 1 and 2	$ktCO_2e$	**1,255***	3,080	2,371
Proportion of Group emissions within the UK	%	**78***	95.3	93.2
Group total scope 3[4]	$ktCO_2e$	**3,121***	3,135	–
Biologically sequestered carbon[5]	$ktCO_2e$	**13,415**	13,273	12,795
Carbon intensity				
Generation emissions per GWh of electricity generation	tCO_2/GWh	**33***	143	113
Group emissions per GWh of electricity generation[6]	tCO_2e/GWh	**78***	164	137
Total energy consumption				
Group total energy consumption	kWh	**44,112,891,484***	48,253,807,865	46,025,306,198
Group total energy consumption within the UK	kWh	**40,112,110,277**	47,090,524,296	43,852,816,521

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO_2e) and include all greenhouse gases as required by the GHG Protocol. For the basis of reporting see www.drax.com/sustainability

(1) Generation emissions covers all direct emissions from our own business operations that fall under the scope of the UK Emissions Trading Scheme (UK ETS) and formerly the European Union Emissions Trading System (EU ETS)
(2) Group total scope 1 covers all direct emissions from our own business operations, across all sites
(3) Group total scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites
(4) Group total scope 3 excludes 'downstream leased assets'; and categories 'end of life treatment of sold products', 'franchises' and 'investments' are not applicable
(5) The biogenic carbon emissions resulting from generation are counted as zero in official reporting to both UK authorities and under the UK Emissions Trading Scheme as the use of sustainable biomass is considered to be CO_2 neutral at the point of combustion. This methodology originates from the United Nations Framework Convention on Climate Change
(6) Group emissions are total scope 1 and 2 emissions as reported
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Generation[1] carbon intensity
(tCO_2/GWh)



(1) Generation emissions covers all direct emissions from our own business operations that fall under the scope of the UK Emissions Trading Scheme (UK ETS) and formerly the European Union Emissions Trading System (EU ETS)

Direct carbon emissions (scope 1 and 2)

Since 2012, our absolute carbon emissions (scope 1 and 2) have fallen more than 94%, with four of the six generating units at Drax Power Station converted to biomass from coal.

In 2021, our Group scope 1 and 2 carbon emissions decreased by 59% compared with 2020. This reflects the sale of gas assets in January 2021, and a decrease in coal generation, as we progressed the full closure of commercial coal generation at Drax Power Station. Pinnacle, acquired in 2021, contributes around 9% of Group scope 1 and 2 emissions through its pellet manufacturing activities.

Value chain carbon emissions (scope 3)

We recognise the impact our carbon emissions have across the value chain. In 2021, we developed a scope 3 target that enables us to align to the SBTi (42% reduction in scope 3 emissions by 2030, against a 2020 baseline).

The primary contribution to our scope 3 emissions comes from our fuel and energy related activities. This includes fuel supply chains, such as biomass and coal. The second largest contribution is purchased goods and services, followed by use of sold products, which includes the end use of gas purchased and sold by our Customers business.

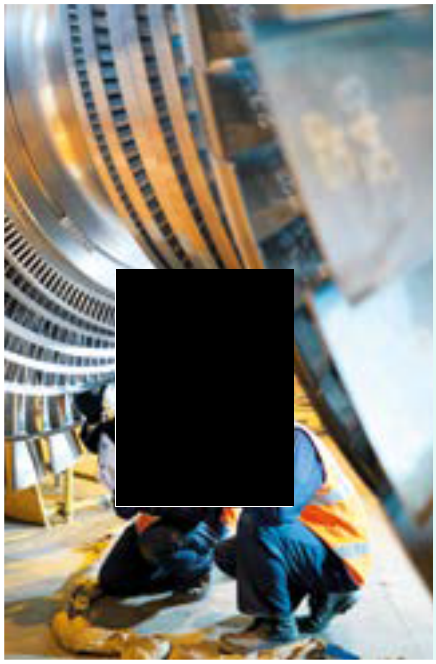
For breakdown of scope 3 emissions by category see **ESG data supplement www.drax.com/sustainability**

Carbon intensity

Between 2012 and 2021, our generation carbon intensity has fallen by over 95%. This reflects the conversion of four generating units at Drax Power Station from coal to biomass, the sale of gas assets in 2021, and the diversification of our generation portfolio that today includes hydro, biomass and pumped storage.

Energy and carbon reduction initiatives

In 2021, we completed the third in a series of three high-pressure turbine upgrades on biomass units 1-3 at Drax Power Station (see further information below). In 2020, at Cruachan Pumped Storage Power Station, work to replace four sulphur hexafluoride (SF6) circuit breakers was completed, reducing the total potential for emissions from this source by up to 500tCO_2e per year.



High Pressure turbine upgrades at Drax Power Station

Between 2019 and 2021, we have completed a series of three High Pressure turbine upgrades and improvements on biomass units 1-3 at Drax Power Station. A total capital investment of around £40 million was made over three years for the upgrade programme. We expect the upgrades will improve unit 1-3 biomass generation thermal efficiency and reduce maintenance requirements, lowering the cost of operations.

Improved turbine efficiencies have been achieved by fitting new, modern pipework and valves, with high efficiency blading and long-life seals, within the turbines on the three units. Improved thermal efficiencies mean less fuel is needed to create the same output of electricity. This efficiency is designed to contribute to an incremental reduction in the cost of biomass generation and forms part of our approach to achieve our strategic objectives.

In 2021, the outage at unit 1 was completed with no 'worse than first aid' injuries – a significant achievement when more than 560,000 hours were worked.

Climate positive >

Biomass supply chain emissions

Biomass can only be considered a low carbon, renewable energy solution when it can be evidenced that greenhouse gas (GHG) emissions savings are delivered on a lifecycle basis, compared to alternatives such as fossil fuel generation. We therefore collect fuel and energy data for each step in the supply chain, enabling us to calculate lifecycle GHG emissions for our biomass and to demonstrate compliance with our regulatory requirements.

The UK Government has set a limit on biomass supply chain GHG emissions, which must be met by generators to be eligible for support under the Renewables Obligation and Contract for Difference schemes. The current limit is 200 $kgCO_2e$/MWh of electricity. In 2021, our average biomass supply chain GHG emissions amounted to 100 $kgCO_2e$/MWh of electricity.

100 $kgCO_2e$/MWh

Drax Power Station average biomass supply chain GHG emissions, 2021

Drax is committed to taking a leading role in the accounting and reporting of lifecycle emissions for biomass. In 2020, we launched our Biomass Carbon Calculator, a GHG lifecycle emission tool designed to improve the accuracy and transparency of reporting emissions for wood pellet supply chains (available at www.drax.com/sustainability/sustainable-bioenergy/the-biomass-carbon-calculator/). The calculator has been externally verified against UK and EU regulations. It includes all material sources of GHG emissions, including categories absent from other UK reporting tools, such as methane and nitrous oxide emissions arising from fuel combustion.

We are further investigating decarbonisation pathways for our biomass supply chains to ensure emissions are reduced at a rate consistent with limiting global warming to 1.5°C above pre-industrial levels.

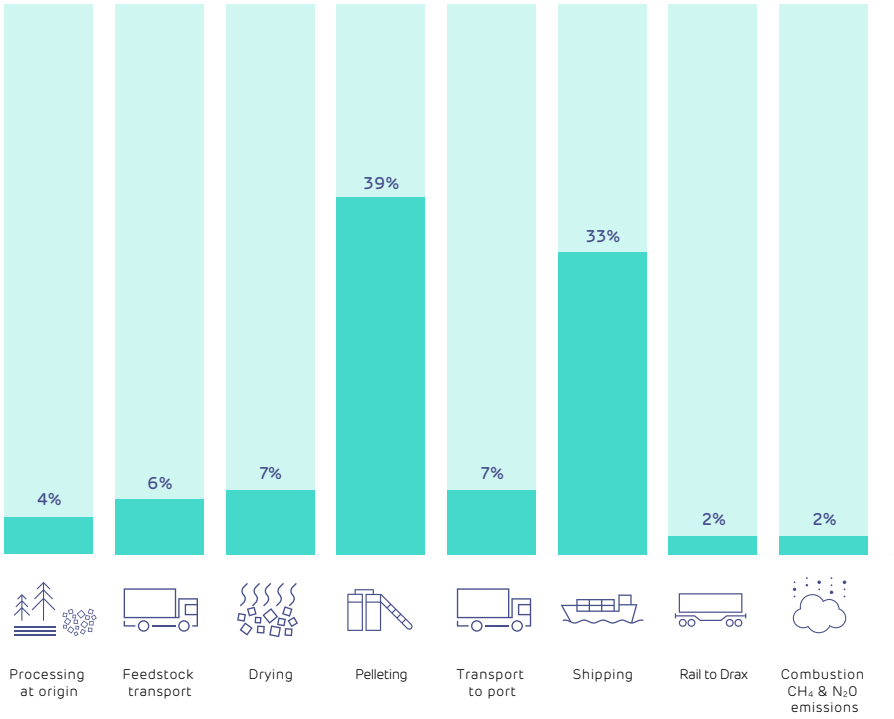
Drax Power Station average biomass supply chain GHG emissions

	Unit	2021	2020	2019	2018	2017
Average biomass supply chain GHG emissions	$kgCO_2e$/MWh	**100***	109	124	131	130

Note: For the 2021 figure reported, December data has been calculated based on the weighted average carbon intensity of January to November 2021 actual data.

* Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see www.drax.com/sustainability.

Drax Power Station biomass supply chain GHG emissions in 2021 (%)



Note: includes the biomass supply chain emissions associated with both Drax's direct operations (Pellet Production business) and third parties. This is an estimate based on the average carbon footprint of pellets received at Drax Power Station for each stage in the biomass supply chain.

Environmental management

Approach and governance for environment

During 2021, we updated our Group-wide Environment Policy, mapped to our core values. Our policy reconfirms our commitment to manage, monitor and reduce the environmental impacts caused by our business through continual improvement of our operations; and to minimise adverse impacts of our operations on biodiversity. The Group policy, signed by the Chair of our Board and our CEO, sets out what we aim to achieve, and our businesses reflect how they will enact this in their implementation statements.

As part of our Group-wide governance, an HSE internal assessment was undertaken in 2021 by a third party, using a risk-based methodology designed to assess, improve, and demonstrate the adequacy of our HSE business processes. Reports were produced at a site level for local management's ownership of the improvement areas, and the overall assessment was reported to the quarterly Group HSE Committee and to the Audit Committee in July and December 2021.

Each month, we report internally on environmental incidents and near misses, and the Board receives monthly reports as part of the CEO report. In 2021 we introduced leading and lagging indicators for environmental management into our HSE balanced scorecard. Leading indicators give us proactive measures to track prevention efforts prior to an incident, and lagging indicators enable us to track incidents once they have occurred.

We respond to, and track actions taken from, any environmental complaints made in relation to our operations, and we investigate environmental events to ensure that root causes are established, and lessons are learned and shared across the business. As we integrate Pinnacle into Drax, we have established a risk-based HSE improvement strategy for our Pellet Production business.

See Drax Group Environment Policy **www.drax.com/about-us/corporate-governance/compliance-and-policies/**

Environmental Management Systems

In the UK, our Generation assets are certified through their respective management systems to ISO 14001:2015 and are subject to regular external audits. In the US, our Pellet Production sites operate under an environmental management system that is aligned, but not certified, to the principles of ISO 14001:2015.

To establish a baseline of environmental performance at the Pinnacle sites, we commissioned a third-party specialist to undertake management system desktop and site-based environmental assessments of each operational site in Canada and the US, to inform our areas for improvement and associated investment. In Q2 2021 we established a risk-based HSE improvement strategy for our pellet operations, combining best practice across our US, Canada and UK operations into a new integrated management system for health, safety and the environment. In Q3 2021, we reorganised the HSE team across North America to support this improvement journey, establishing a lead director role for HSE, responsible for the wider geography, supported by environmental specialists in each country. We are underway with a programme to upskill our Pellet Production site-based safety teams to expand their competency to include a wider responsibility, covering all aspects of HSE.

Environmental compliance

Wherever we operate, we seek to establish an open and direct partnership with the local environment agencies. We provide further information on environmental aspects below.

At Daldowie, our newly installed regenerative thermal oxidiser has delivered 99% reliability, adding enhanced treatment to exhaust air before it is released to the atmosphere. Despite this, the Scottish Environment Protection Agency (SEPA) has substantiated six odour complaints in 2021 from local neighbours. During 2021 we undertook a review of the site to identify and mitigate other potential sources of odour, and we continue our dialogue with SEPA, keeping them informed on the actions we are taking. We have identified further works, some of which have already commenced to reduce the potential for odours from the site.

As reported in 2020, a US$2.5 million fine was imposed by the Mississippi Department for Environmental Quality in February 2021 in relation to historic breaches regarding levels of volatile organic compounds (VOCs) at the Amite plant. Work to install new equipment to reduce our VOC emissions was completed in July 2021. At our Morehouse and LaSalle sites, we have completed the installation of new regenerative catalytic oxidizers to reduce emissions.

At Morehouse, in October 2021, we completed improvements to our dry shavings 'truck dump' area with the addition of a baghouse to combat fugitive dust exceedance.

Two environmental non-compliance fines were issued at Aliceville, US, in 2021, which resulted in a total payment of US$13,685, which related to missing documentation.

For our Pinnacle operations we are establishing a comprehensive programme for environmental compliance and commenced proactive engagement of the relevant environmental regulator as we seek to improve standards at our sites. We also completed multiple equipment upgrades at US and Canadian sites to improve operational efficiencies amongst other objectives.

Climate positive >

Environmental performance

	Unit	2021	2020
Emissions to air			
Nitrogen oxides – power generation	t	**7,556**	9,498
Sulphur dioxide – power generation	t	**1,087**	3,015
Particulates – power generation	t	**448**	566
Nitrogen oxides – pellet production	t	**386**	427
VOCs – pellet production	t	**1,202**	2,983
Particulates – pellet production	t	**193**	489
Water use			
Total water abstracted – power generation(1)	m^3	**64,140,878***	242,472,306
Total water returned – power generation	m^3	**57,616,803***	231,039,964
Total water abstracted and returned – hydro generation(2)	m^3	**3,005,380,954***	4,289,825,847
Total water abstracted from reservoir – pumped storage(3)	m^3	**261,791,757***	294,022,644
Total water abstracted from Loch Awe – pumped storage(4)	m^3	**249,155,337***	241,452,288

Note: For Pellet Production other emissions to air 2020 and 2021 data reported for Drax Biomass plants only: La Salle, Morehouse and Amite.

Note: "Total water abstracted" covers water data reported to the Environment Agency (EA) and Scottish Environment Protection Agency (SEPA) as abstraction.

(1) Power generation covers Blackburn, Damhead Creek, Drax, Rye House and Shoreham Power Stations
(2) Hydro generation covers Galloway and Lanark Hydro Scheme
(3) Pumped storage covers Cruachan Power Station
(4) Excluding volume of water collected via the aqueduct system
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

For additional environmental performance data see
ESG data supplement www.drax.com/sustainability

Emissions to air

During 2021, at Drax Power Station, we focused on compliance readiness for the new requirements of Annex V of the EU Industrial Emissions Directive with the new Best Available Techniques Reference Document (BREF) levels, which came into force on 16 August 2021. This new BREF level will become the reference point for setting permit conditions and includes tighter limits for emissions of nitrogen oxides (NOx), sulphur dioxide (SO_2), mercury and particulate matter (PM). Since August 2021, our operations have operated within the BREF limits.

In 2021, emissions of nitrogen oxides, sulphur dioxide and particulates from power generation trended downward, compared with 2020. This can be partially attributed to decreased coal generation at Drax Power Station.

In 2021, work commissioned to review the regulatory landscape across our wood pellet operations in relation to VOCs was completed, setting out the key issues around sources of VOCs, their health and environmental effects and regulatory risks, covering the US, Canada, UK and EU. One of the key recommendations taken forward from this report is to undertake a programme of work to establish a baseline to understand emissions and impacts at our operational sites and work is currently underway to develop a pilot programme in this regard for 2022. Similarly, we commissioned a review on particulate matter across all our operational sites, which was completed by year end 2021, and the output is under consideration.

Water use

In 2021, we commissioned third-party specialists to establish the sensitivity of our Pellet Production and Generation operating assets to water stress, should existing rainfall, groundwater and water availability patterns be significantly disrupted as a consequence of climate change. The physical exposure of our assets to water stress was assessed using the WRI Aqueduct Water Risk Atlas, with exposure assessed for both the present day and up until 2040, considering the potential impacts of climate change. The vulnerability of our assets to water stress was assessed using a combination of qualitative information from strategic regulatory documents along with water usage and consumption data. This assessment has identified that no operational site was under an immediate water stress challenge, and this now gives us a basis from which to conduct further detailed studies, especially where we foresee changes in our operations, such as future BECCS at the Drax Power Station site.

Drax Power Station uses water for operational and cooling processes where losses occur through steam and ancillary processes, with the remainder discharged to the environment. In line with our permit requirements, procedures are in place to manage water system efficiency and usage and to ensure that all discharge consent limits are met. Compared to 2020, our total water abstracted for generation decreased which is largely due to the sale of our four Combined Cycle Gas Turbine power stations in January 2021.

In 2021, 3,005,380,954 m^3 of water reported as abstracted was used for hydro generation at the Galloway and Lanark Hydro Scheme. This volume is not consumed and is returned to the natural environment.

At Cruachan Pumped Storage Power Station, when there is excess power on the grid and demand for electricity is low, the excess power is used to pump water from Loch Awe into the upper reservoir. Water is then released back into Loch Awe when electricity generation is required. We closely monitor the arrangements for the cycling of this water and report as required to SEPA.

Nature positive

Putting in place the systems to ensure that our operations and supply chain do no net harm to nature and, where possible, contribute to the enhancement of nature

Nature-related financial disclosure

In 2021, Drax joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum. We are supportive of this global initiative to develop a new framework for organisations to report and act on evolving nature-related risks.

What is 'nature positive'?

Nature loss is now seen as one of the biggest threats facing humanity today. To many it is, or will soon be, as serious as climate change. In addition, climate change and nature loss are intrinsically linked – negative impacts on the biosphere contribute to biodiversity loss and climate change, and vice versa.

Until now, nature has often been viewed as something we should protect. The narrative is shifting from minimising impact to our ecosystems and biodiversity to actively improving them, through baselining and then determining action for positive impacts. Instead of limiting damage we should also restore and enhance ecosystems. This idea is referred to as 'nature positive'.

A nature positive outcome

Nature positive is one of the three sustainability outcomes within our Drax sustainable development framework.

A key part of our nature positive approach is linked to the biomass we source – how we ensure the biomass we buy has nature positive outcomes. However, we also recognise that nature positive is broader than the biomass we source. We will expand our approach to, for example, look at biodiversity around our UK generation assets.

Our focus for 2022 is to understand the metrics we should use to baseline our impact on nature and then build on. This requires consideration across a range of metrics, and decisions as to whether we focus on biodiversity, or embrace other metrics such as soil ecology and watershed quality. In addition, the metrics will vary across locations, since appropriate metrics for a hydro scheme may not be appropriate for sustainable biomass from forests.

Building a Group-wide approach to biodiversity

Our Group Environment Policy outlines our commitment to minimise adverse impacts of our operations on biodiversity, through the protection of fauna and flora.

As we build out our Group-wide approach to the management of operational impact and dependencies on biodiversity, we are exploring the use of the International Union for Conservation of Nature (IUCN) Guidelines for planning and monitoring corporate biodiversity performance. This will be a key workstream for the business in 2022.

For our hydro operations in Scotland, we are currently enhancing our core training for colleagues and contractors to have a better understanding on conservation and biodiversity issues and control measures.

People positive

Ensuring we benefit the people in our network, including our colleagues, neighbours, and supply chain

Positive social impact

At Drax, our approach is organised around five global themes, which we implement in different local contexts:

1. STEM and green jobs: making a contribution to embedding STEM in the education system, from year one to degree level and lifelong learning.

2. A good neighbour: effective engagement between our sites and local communities.

3. A regional development partner: understanding and optimising our contribution to the economic prosperity of the regions in which we have operations.

4. Diversity, equity and inclusion: creating a welcoming and inclusive environment for all, irrespective of background, gender, family need, ethnicity, disability or sexuality,

5. Talent pipeline: ensuring we, as Drax, have a sufficient pipeline of talent to meet our current and future needs.

Levelling up and social mobility

In the UK, across our range of skills and educational outreach work, we focus on the number of individuals we have reached – from an apprentice hired to a student participating in an educational webinar, or our partnership with Teach First. We refer to this as 'Mobilising a Million', our ambition to improve skills, education, employability and opportunity for one million people by 2025.

Building the workforce of the future

We are a signatory to the UK cross-party Social Mobility Pledge, which is committed to accessing and progressing talent from all backgrounds. During this year we have supported 63 students with virtual work experience, helping to develop their business awareness, career aspirations and employability skills, as well as providing us with a talent pipeline.

We have also continued to focus on using apprenticeships to recruit new talent and develop our existing colleagues. We have recruited 11 new apprentices across the UK and supported five apprentices in other companies through the levy share scheme; where we have pledged £125,000 of our levy to develop talent in companies local to our sites. In addition to new apprentices, 42 colleagues have embarked on apprenticeship qualifications this year, with specific focus on developing our engineering capability, as well as other core skills to future focus the talent within our business.

In 2021 we recruited nine graduates, to take our graduate numbers back to pre-pandemic levels. We are continuing to secure permanent roles for graduates who have completed the programme and 100% of our 2019 graduate cohort secured a position within Drax.

Our internship programme also provides a pipeline of talent. We have taken on five 'Year in Industry' students during 2021 and offered three previous interns permanent positions.

Community and charity

We deliver charitable and employee volunteering initiatives in the communities where we operate. In 2021, Drax provided around £421,000 in donations, including through employee match funding, payroll giving, our community fund, community partnerships and fundraising days.

In 2021, our corporate charitable giving activity included a C$50,000 donation to Canada's Red Cross to support relief efforts for communities affected by wildfires in British Columbia. We also extended our 2020 Laptops for Learners initiative in the UK, donating a total of 1,173 laptops with internet access to around 80 schools and colleges.

Virtual work experience

We delivered two virtual work experience placement weeks in 2021. Open to students in Year 10 and above in England and Scotland, our programme covers IT, Business Support, Finance and Engineering. Participating students undertake projects specific to their expertise area, and complete career and employability skills sessions.

Our virtual format reduces barriers to participation, creating opportunities to further education and improve employability.

Safety, health and wellbeing

The safety, health and wellbeing of our employees and contractors is a priority for Drax and vital to our continued success.

Safety, health and wellbeing strategy

In 2021, we issued our first combined Group-wide Safety, Health and Wellbeing Policy, mapped to our core values, reconfirming our OneSafeDrax vision and our commitment to everyone finishing their day of work safe and well. Our people are at the heart of everything we do, and colleague wellbeing is fundamental to our overall success. The Group policy, signed by the Chair of our Board and our CEO, sets out what we aim to achieve, and each business unit will reflect how they will enact this in their safety, health and wellbeing implementation statements. Together, we all share responsibility for the safety, health and wellbeing of ourselves and our colleagues.

HSE performance is a standing item on the agenda of our Executive Committee, is reported at each Board meeting by the CEO, and reviewed regularly by each local management team. Group HSE performance is reviewed quarterly by our Group HSE Committee. Incidents and findings are shared across the Group via bulletins, focusing on preventative action to be taken to mitigate the risk of future occurrences. We are focused on continuous improvement and colleague engagement, incorporating colleague suggestions in our actions to improve safety. Examples during 2021 at Drax Power Station include Front Line Leadership Training, and reorganisation of our Health and Safety Committee to involve representatives from each station team.

We introduced a balanced scorecard for reviewing HSE performance across the Group in 2021, incorporating both leading and lagging indicators for health and wellbeing, occupational and process safety and environmental performance. We are focused on a balance of leading indicators which give us proactive measures that track prevention efforts prior to an incident, as well as lagging indicators which track incidents once they have occurred. We had found that our previous focus on recordable injuries was limited and gave restricted insight. The focus in 2021 was enhanced by tracking metrics against which the Remuneration Committee could assess performance, as part of measuring bonus payments to colleagues, thereby linking reward to an important area of business performance. For more information see page 150.

Of note for positive safety performance was the major outage at Drax Power Station on Unit 1 which was completed with no 'worse than first aid' injuries – a significant achievement when more than 560,000 hours were worked.

During 2021, we initiated the roll-out of a new HSEQ IT reporting platform, which will be implemented across all sites during 2022. This will provide, for the first time, a single system and allow more data analysis of incidents, corrective actions, hazard management, risk management and behavioural observations.

See Drax Group Safety Health and Wellbeing Policy **www.drax.com/about-us/corporate-governance/compliance-and-policies/**

As part of our integration of Pinnacle, we have established a risk-based HSE improvement strategy for our Pellet Production business. Since completion of the acquisition in April 2021, we have incorporated incidents and hours worked for employees within the Group-wide Total Recordable Incident Rate (TRIR). The HSE performance from the Pinnacle teams has confirmed our assessment of HSE maturity, as ascertained during due diligence and integration. In Q3, the HSE team in North America was restructured to support delivery of our HSE improvement strategy. This has enabled better clarity on performance, including reporting on incidents inclusive of both employees and contractors. We continue to develop mechanisms to capture contractor hours and incidents across Pinnacle and will report these data from January 2022. The support of Pinnacle colleagues in this work has been immensely helpful to the progress which has been made.

Safety Management Systems

We have safety management systems (SMS) in place to ensure safe workplaces for all our people. At our Generation sites, those systems are certified to ISO 45001. Work is underway to align all our Pellet Production sites to one HSE management system across the US and Canada. Our Customers and Corporate sites in the UK continue to implement a SMS, with a focus on continuous improvement in our health and safety culture and promoting wellbeing.

We established our HSE Centre of Excellence with participation from the leads for HSE across our businesses, and each month we review serious incidents, collaborate on developing corporate requirements and share best practice. During 2021, we developed minimum standards for confined space working, working at height and vehicles on site – these will be reflected in business unit operating procedures during 2022.

Following notification of legal action from the Health and Safety Executive in relation to wood dust at Drax Power Station, we have pleaded not guilty. In addition, following notification of charges relating to violation of occupational health and safety laws arising from an explosion at the Entwistle pellet plant in February 2019, we have pleaded not guilty. As these are ongoing legal issues we cannot provide any further information at this time.

Health and safety performance

	2021	2020	2019
TRIR*– total[1] [2]	**0.22**	0.29	0.22
TRIR – employees	**0.27**	–	–
TRIR – contractors[2]	**0.11**	–	–

(1) TRIR is the total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. Total includes both employees and contractors.
(2) 2021 data excludes Pinnacle contractor incidents.
* 2021 data subject to final assurance

For additional health and safety performance data see ESG data supplement **www.drax.com/sustainability**

Each business unit reports monthly HSE performance, including TRIR. The Board receives monthly reports as part of the CEO report, which includes information on any incidents and tracks trends. We investigate all injury events, with particular focus on those with high potential, to ensure that root causes are established, and lessons are learned and shared across the organisation.

In 2021, our TRIR was 0.22 per 100,000 hours worked, against a target of 0.20 (2020: 0.29 per 100,000 hours worked, against a target of 0.21).

People positive >

Process safety

To strengthen our process safety management, we issued our first Group-wide Process Safety Policy in 2021, focused on ensuring we identify and manage process risk to protect our people, assets, the environment, and the communities in which we operate. It also reflects our commitment to reducing the potential for a major accident, through the application of improved controls of plant, process, and the training and awareness of our people. We commit to the achievement of good process safety performance by adhering to industry best practices where practicable, for example, the Generators Safety Integrity Programme informing our internal engineering and governance good practice guides. Our Group Process Safety Policy sets out what we aim to achieve, and each business unit will reflect how they will enact this in their process safety implementation statements. Together, all colleagues share responsibility for ensuring the principles are followed as we collectively strive to achieve an incident-free process safety performance.

In 2021, we established the key principles of process safety across the Generation fleet. The principles are in line with industry best practice and focused on controls of plant, process and people. An experienced team from the UK visited our North American colleagues in 2021, to share how these principles were identified, and to collaborate on how this could be rolled out to the Pellet Production business in 2022. A process safety handbook and awareness videos were rolled out to the Generation business in 2021, and will be rolled out to the Pellet Production business in 2022. Process safety performance is reported monthly to the Executive Committee. All process safety incidents with high potential are routinely investigated to establish root causes and enable corrective actions to be focused on preventing reoccurrence and lessons learned are shared across the Group.

One process safety incident, which we investigated and that impacted our operations during the year, was a fire at the Westview port (Pinnacle) in July 2021 – there were no injuries. A team formed of US colleagues supported the Canadian team in the investigation and safe repair of the bucket lift.

Wellbeing

We continue to build on our holistic wellbeing approach that is overseen by our Group HSE Committee. In 2021, we focused on four key areas: physical, mental, social and financial wellbeing, aiming to improve participation in our benefit and wellbeing programmes.

We launched our Living Well newsletters to our UK and US audiences, which offers ideas and raises awareness of the rewards and benefits available to employees through our healthcare providers. Using key moments through the year, such as mental health awareness week, Menopause day and Movember, we featured special events, webinars and competitions with something for everyone to take away, recognising that wellbeing priorities are individual.

In 2022 we will continue our focus on the four pillars, with additional attention to 'breaking down taboos' commonly associated with some health and wellbeing issues. Our objective is to create a safe and informed place to discuss issues such as menopause, fertility, men's health and LGBTQ+, also recognising the direct correlation between inclusion and wellbeing. With HR now leading on wellbeing, we will be reviewing wellbeing issues that commonly impact colleague engagement, retention and attraction.

Four key areas of wellbeing

Physical:

Our summer step challenge encouraged colleagues to move the equivalent of as many steps as possible over the summer months. Colleagues shared their stories of building fitness, often overcoming challenges to maintain their personal wellbeing. Our Pinnacle colleagues joined together in a virtual mission to cover the equivalent distance between the Westview Terminal in British Columbia, Canada, and the Port in Mobile, Alabama, US. They exceeded their target, covering 8,653km in total. Along the way, we raised awareness and helped employees make the most of the rewards and support on offer through our healthcare providers.

Mental:

Our Covid-19 absence policies during 2021 ensured everyone continued on full pay during the pandemic, helping to reduce worry and stress for colleagues, and we introduced flexible and hybrid working policies to help colleagues manage their work-life balance. We encouraged colleagues to focus on their personal resilience through tailored e-learning, as well as mental health awareness training, to enable managers and colleagues to openly have conversations about mental wellbeing, and spot the signs when someone might need support. Responding to colleague feedback, we piloted the introduction of Mental Health First Aiders in our Generation business and refreshed training for mental health champions in our Customers business.

Social:

With many colleagues still working remotely, we continued to monitor how connected employees felt through our MyVoice pulse surveys, as well as offering opportunities to take part in virtual social events. These included the summer step challenge, a summer quiz league and virtual fun run. Throughout 2021, many colleagues chose personal challenges to raise funds for charities and shared their stories through our Living Well newsletters.

Financial:

We offered colleagues information sessions with pension providers, financial wellbeing webinars and access to the money advice service through our benefits portal. Through Living Well, we promoted the discounts and rewards available to colleagues through our benefit providers – including retail discounts and free health checks – to help them manage their money and look after their wellbeing.

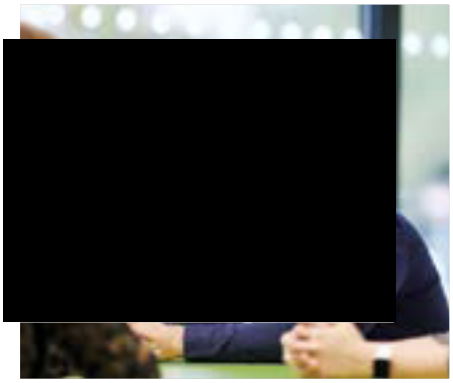
People, culture and values

At Drax, our values are shaped by our culture, fundamental to which is acting with integrity and what we call "doing the right thing". These values are set by our Board, delivered by our people and permeate through all areas and levels of the organisation.

- We care about what matters
- We are a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we will do

We started our journey in 2020, asking our colleagues to articulate what for them represented important aspects of our culture and values, and what it was that they felt amounted to the Drax experience. We learned from this engagement and our culture has continued to evolve, for example we recognise reviewing the values statements as part of the Pinnacle acquisition is important to ensure they reflect our shared experiences and contribute to one global Drax. We commenced a review of the enlarged Group's values in 2021, which should be completed in 2022.

See Corporate governance report, **page 94**



Our people strategy

We work to maintain consistently high standards in our employment practices and all colleagues benefit from policies to support them in the workplace. Our three-year People Strategy focuses on five key areas.

1. Attracting, retaining and developing diverse talent pools, which reflect the demographics of the areas we operate in, to ensure diverse thinking in our innovations
2. Encourage an inclusive environment where innovation, flexibility and collaboration flourish and where people have the opportunity to reflect, adapt and to challenge the norm
3. Focus on Future Workforce Planning and organisational design to enable us to grow our business internationally and adapt to business changes swiftly and seamlessly
4. Create a high-performance and inclusive culture where our people are equitably incentivised, rewarded and recognised for their contribution
5. Create effective and efficient frameworks, policies, and working practices that ensure simplicity, autonomy and ownership of people matters across the business

The last year has seen significant change for all, and we are working with colleagues to positively enable growth in the culture, focus and passion of our organisation. In our response to the Covid-19 crisis, we demonstrated these changes through our ways of working, culture and values, to shape the way we all work in this ever-changing 'post pandemic' world.

Our People

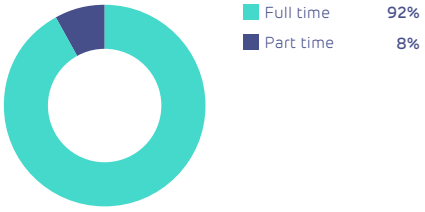
	Unit	2021	2020
Total number of Group employees(1)	n	**3,053***	3,022
Employee engagement score	%	**79**	82
Total employee turnover rate	%	**29.5**	11

(1) Total number of Group employees as at 31 December for given year

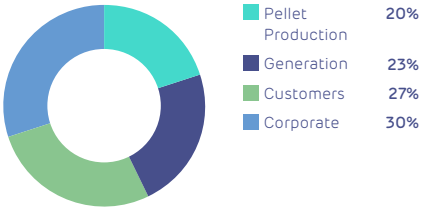
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

For additional people data see ESG data supplement **www.drax.com/sustainability**

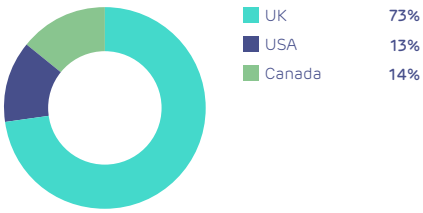
Employment contracts*



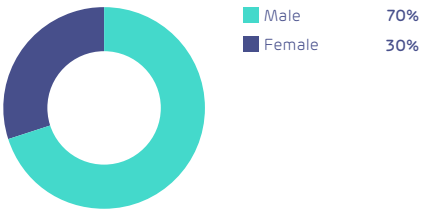
Employees per business unit*



Employees per country*



Employment gender*



Note: headcount as at 31 December 2021

* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

People positive >

Development and training

We invest in the development of our colleagues to help them make the most of their talents, meet their career aspirations and enhance business performance. Our Performance, Potential and Succession processes enable managers to identify colleagues' development needs and those with the skills and capabilities for succession into critical roles. In 2021, we delivered over 11 hours of training per person, utilising a blended learning approach, and we launched My Development and Welcome to Drax learning resources.

We launched our high-potential programme, Future Creators, in 2019. It is designed to support the development, retention and growth of our future leadership pipeline. 42 colleagues have completed the programme. We have retained 91% of participants and 71% have either moved up a career level or moved into broader roles since completing the programme. Our Management Excellence programme is designed to support our line managers with key people skills. During Covid-19 it was adapted for virtual delivery, and since 2020 over 230 managers have participated.

In September 2021 we launched our Inclusive Leadership Programme. Over 200 leaders, including the Executive Committee, have completed the programme, which gives senior leaders the tools and knowledge to role-model inclusive leadership across Drax. It is part of our strategy to educate and inspire colleagues, supporting our journey to make Drax an even more inclusive place to work.

See also Building the workforce of the future, **page 56**

Diversity, equity and inclusion (DEI)

We are committed to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters. We aim to support everyone and to design ways of working that are inclusive and flexible, enabling equitable opportunities for all.

Our Diversity and Inclusion Steering Group meets monthly to consider and recommend plans to improve diversity and inclusion across Drax. The Steering Group is chaired and sponsored by the Director of Corporate Affairs and supported by the Chief People Officer, both of whom are members of the Executive Committee.

In 2021 we have focused on the delivery of our three pillar DEI plan to support our ambitions.

1. **Collating colleague diversity data in the UK.** With 78% of our UK workforce responding to date, this insight supports us in taking meaningful action based on real time data and has helped inform the development of our DEI strategy from 2022 onwards.

2. **Educating and inspiring our colleagues on diversity and inclusion**. Through our Inclusive Leadership Programme, a series of colleagues' personal diversity stories on the intranet and live panels to recognise events such as International Women's day and Pride.

3. **Making careers at Drax more attractive to talented people from all backgrounds and ensuring a fair and equitable recruitment process**. This has resulted in increasing leadership hires in the UK – 42% were female – and growing our overall UK female headcount from 34% to 36% in 2021.

In October 2021, two additional Non-Executive Directors were appointed, bringing complementary skills that reflect also the growth and international presence of Drax following the acquisition of Pinnacle.

In 2021, our Executive Committee participated in a DEI review with an external consultant, to understand progress against our DEI ambitions and to support the formation of our DEI strategy from 2022 onwards. We added an Inclusion Index to our annual colleague survey, enabling us to externally benchmark how included colleagues feel working at Drax. We scored six points ahead of the Energy and Utilities norm group in 2021 and have considered opportunities to improve as part of our 2022 DEI strategy.

For UK colleagues, we introduced new flexible working policies, and we updated our family friendly policies. This included enhancing our shared parental leave offering to match the enhanced maternity leave across the Group; introducing a phased return to work when colleagues had taken six months' or more family leave; and introducing a Parental Support Bonus. This resulted in the Company moving into the Top 40 companies in the Working Families Benchmark report, for our UK offering. Further. we introduced a Dignity at Work Policy for UK colleagues, setting out our approach to how we expect our colleagues to behave to create a fair and inclusive environment for all.

Further information on diversity is available in the Corporate Governance Report, **page 96**

Colleague representation and engagement

At Drax, 14% of our workforce is covered by collective bargaining and we have employee representative consultation and information arrangements in place for employees with individual employment contracts.

We communicate with our workforce through channels including our intranet, our quarterly magazine, newsletters, town hall meetings and our weekly online Q&A portal with the CEO. Each business unit has a MyVoice Forum made up of colleague representatives and supported by senior leadership sponsors. The Forums enable exchange of information and views between colleagues, the Executive Committee and the Board on key issues, such as strategic decisions affecting ways of working and the work environment. Forum Chairs meet quarterly with the Chair and CEO to discuss colleague sentiment and feedback on key topics, which during 2021 included the return to working in offices as Covid-19 restrictions eased; ongoing organisational transformation, linked in part to the acquisition of Pinnacle, sale of our CCGT gas assets, and "fit for the future" planning at our site in North Yorkshire; and diversity and inclusion. For more information, see Workforce Engagement on page 109.

Our annual engagement survey is a key part of our listening and engagement strategy. In 2021 it was completed by 70% of colleagues and our engagement score was 79%. These were slight declines compared to 2020, during which organisations saw increased engagement scores (on average +2%), due to the Covid-19 pandemic. Whilst our engagement score is 1% below the Energy and Utilities sector benchmark, it exceeds the benchmark for companies going through significant organisational transformation, by 6%.

Our 2021 survey results reflected ongoing transformation and trends seen across all industries in employee focus and sentiment. Career and development opportunities was a key action area from 2020 and this category improved by 1%. There was improvement in employees feeling that action was being taken as a result of their feedback, rising by 5% in 2021 and 15% compared to 2019.

Ethics and integrity

At Drax, we are committed to conducting business ethically, with honesty and integrity, and in compliance with all relevant laws and regulations. We do not tolerate any form of bribery, corruption, human rights abuse, or other unethical business conduct.

Our business ethics documentation framework consists of principles, policies, and guidance. The principles are set out in our Drax Code of Conduct (Drax Code), which identifies the behaviours expected from permanent and, as relevant, non-permanent workers on a broad range of topics. The importance of complying with policies and guidance forms part of our current terms of employment in the UK. The Drax Code, including a series of training videos, is a mandatory read for all UK and Drax Biomass new starters – both permanent colleagues and, as relevant, non-permanent workers. The consequence of failing to comply with the Drax Code is clearly articulated in the Code itself.

Our business ethics policies and guidance documents provide further instruction. These include our policies relating to Anti-Bribery and Corruption (including conflicts of interest), Anti-Fraud, Anti-Money Laundering and Prevention of Proceeds of Crime and Terrorist Financing, Corporate Criminal Offences (Anti-Facilitation of Tax Evasion), Fair Competition, Financial and Trade Sanctions, Human Rights, Privacy and Speak Up (whistleblowing), and our guides, including topics such as Conflicts of Interest, Gifts and Hospitality, Ethical Due Diligence, Privacy and how to speak up.

In 2021, we deployed, to all UK and Drax Biomass colleagues, a:

- Business Ethics for Senior Leaders eLearning module;
- Data protection eLearning module for people managers;
- Customer data access authentication eLearning module for customer-facing colleagues (Customers business only);
- Refresher module on the Drax Code to all colleagues; and
- Communications plan, including an article in our internal colleague magazine.

At Pinnacle, we deployed our Speak Up programme, including our policy, a guide for those reporting concerns, and a guide for managers. We also extended our global, multi-language, external Speak Up telephone and web-portal service to our Pinnacle operations. Our remaining business ethics programmes and the Drax Code will be deployed to Pinnacle colleagues during 2022.

Responsibility for ethics and business conduct

Governance of our business ethics programmes is overseen by the Drax Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee. The EBCC comprises senior leaders, meets quarterly, and was chaired by the CFO during 2021. A formal report on the activities and decisions of the EBCC is provided annually to the Audit Committee. Everybody at Drax is personally responsible for their ethics and business conduct. Drax managers are responsible for demonstrating leadership on ethical matters and supporting their teams to apply Drax's ethical principles.

Our Business Ethics team manages our business ethics programmes. They take steps to understand our risk profile as well as developing, deploying, and maintaining where appropriate the associated policies, procedures, awareness raising communications and training materials. The team also monitors and evaluates compliance, and investigates any potential breaches of policy, supporting our internal and external Speak Up (whistleblowing) channels. Our Internal Audit function provides assurance on the robustness of our business ethics programmes and any recommendations for improvement are addressed.

The Business Ethics team conducts annual risk assessments of each of the business ethics programmes. This is to ensure policies and procedures remain fit for purpose and to recommend any further mitigation measures. Our annual review timetable includes a review of Drax gifts and hospitality records and a colleague business ethics declaration, which was completed by 100%* of colleagues in 2022 (covering 2021). In 2021, we updated our induction process for key non-permanent workers (applicable as appropriate, on a risk-based approach), including an associated declaration process.

Results of annual reviews, details of investigations conducted (including Speak Up (whistleblowing) reports), audit outcomes and completion of actions are reported to both the EBCC and the Audit Committee. The Board receives an update on Speak Up (whistleblowing) reports and relevant controls at each meeting.

Working with others

We are a signatory to the UN Global Compact (UNGC) and maintained our representation on their Modern Slavery Working Group in 2021. This enables us to benchmark our compliance programmes and exchange experience with peers, with a particular focus on our response to the UK Modern Slavery Act.

We seek to work with third parties whose standards are consistent with our own. Third parties are subject to proportionate, risk-based due diligence checks and, where required, are continually monitored throughout the term of the contract via our third-party due diligence system. In cases where concerns are raised, we follow an EBCC-approved escalation protocol. Depending on the nature of the concern raised, we may seek to collaborate on remedial action or on a conditional basis with a third party. However, where necessary, we may decide not to engage with a new third party, or to end an existing business relationship.

Our Supplier Code sets out the commitments and standards we expect of our third parties. During 2021, we continued to roll out our Supplier Code to our third-party suppliers, including encouraging our third parties to pass on the relevant obligations to their supply chains (including the provision of a whistleblowing service). We also strengthened our contractual clauses on the various business ethics topics.

Anti-bribery and corruption

Our internal processes ensure consistency with our zero-tolerance approach to bribery and corruption. Geographic risk is factored into our third-party ethical due diligence process and system. Conducting business in certain higher risk countries must receive prior approval from the EBCC.

Third parties in higher risk countries receive a higher level of initial due diligence and ongoing monitoring. We also screen the affiliates (directors and shareholders) of third parties identified as potentially higher risk and refresh their information on a more frequent basis compared to other suppliers. Ongoing monitoring is performed and new information is provided to the EBCC, as appropriate.

* Excludes employees on long-term absence from Drax during the declaration period, and does not include Pinnacle colleagues joining the business during 2021.

People positive >

In 2021, we issued various awareness raising communications on anti-bribery and corruption to colleagues, including an 'Anti-bribery and Corruption Q&A with the Business Ethics Manager', in the Autumn edition of our internal colleague magazine.

Fair competition

We are committed to conducting our business in accordance with all applicable fair competition laws and we do not tolerate any anti-competitive and anti-trust behaviour or activity.

Our fair competition compliance programme includes a Fair Competition Policy and guide and covers both UK competition law and US anti-trust law. We provide eLearning for colleagues who, through their roles, need to know more and targeted learning for our 'at higher risk' teams. In 2021, following the Pinnacle acquisition, we have updated our policy, guidance and training materials to take account of Canadian laws and we prepared further dedicated guidance to different departments that may be at risk of encountering anti-competitive practices.

Data privacy and security

We take seriously the privacy and security of the personal data we control. We are committed to maintaining effective privacy and security programmes to ensure that our people, customers and the third parties with which we engage have confidence in our data handling practices.

Our privacy programme is managed by the Data Protection team and overseen by the EBCC. It is implemented through policies, work instructions, privacy notices, data protection impact assessments, third party due diligence questionnaires, contractual terms, awareness raising and training. During 2021, we issued eLearning training to UK colleagues who manage people and optimised our privacy designed compliance software to support our work in areas such as individual rights requests and personal data breaches. With the acquisition of Pinnacle, we updated our employee privacy notice and issued this to all new Pinnacle colleagues and incorporated Canadian privacy law requirements into all our relevant Privacy policies and guides. At the same time, the privacy notice was also issued to colleagues at Drax Biomass, as personal data processing of Drax Biomass colleagues takes place in Canada and the UK.

We have continued to mature our security framework throughout 2021, further embedding security risk management controls into our business change activities, improving cyber technical capabilities and expanding security controls and architecture into our operational technology systems. An independent maturity review in 2020 commented that Drax has a "well-structured and capable security function that has matured significantly" and we have continued to improve through our NIS Regulation (Regulation on security of Network and Information Systems), SEC (Smart Energy Code) and PCI-DSS (Payment Card Industry Data Security Standard) compliance programmes.

We maintain a risk-based security controls framework aligned to industry standards, to protect our business, colleague and customer data and to meet our regulatory requirements. In addition to traditional IT security measures, we use cyber technologies to detect, respond to and resolve cyber threats and attacks. We are conscious that such threats continue to develop quickly and our security programme seeks to evolve our controls and response to cyber threats accordingly.

Labour and human rights

Our commitment to the protection of human rights includes not tolerating the use of underage workers or forced labour. This is set out in our Human Rights Policy, Drax Code and Supplier Code.

Our Supplier Code outlines the standard of ethical business conduct we expect from our suppliers. Businesses in our supply chain should offer a safe workplace for their employees that is free from harm, intimidation, harassment, and fear. The Supplier Code emphasises our requirement for our suppliers to challenge unethical behaviour and promote a "speak up" culture and provides the details of our available Speak Up channels for their use in multiple languages.

Our policies and codes are available at **www.drax.com/about-us/corporate-governance/compliance-and-policies/**

Supply chain human rights (modern slavery)

Our Modern Slavery Working Group, chaired by a member of the Business Ethics team, oversees a three-year rolling programme, and reports quarterly to the EBCC.

In 2021, we:

- Published our fifth Board-approved Modern Slavery Statement in accordance with the UK Modern Slavery Act (available at www.drax.com/modern-slavery-act/), which describes the steps we are taking to reduce the risk of modern slavery in our supply chain
- Provided financial support to the UK's Modern Slavery and Exploitation (MS&E) Helpline, operated by Unseen UK, to help keep this invaluable service operational and available to victims of modern slavery
- Progressed a collaboration initiative with one of our logistics partners to promote awareness of the MS&E Helpline
- Benchmarked our supply chain due diligence approach against our peers, regulator guidance and law firm advice
- Strengthened the modern slavery content of our ethical due diligence questionnaire and explored other tools to enhance our supply chain due diligence process
- Engaged with the Social Responsibility Alliance on their Slavery & Trafficking Risk Template
- Engaged with the Humber Modern Slavery Partnership
- Integrated Pinnacle and its supply chain into our ethical due diligence policy, process and systems

We keep our programme and statement under review to ensure it reflects our activities, global presence, and wider evolving practice.

Speak Up (whistleblowing)

As part of our commitment to transparency, openness and continuous improvement, we actively encourage those working for and on behalf of Drax, or any of our third parties, to raise genuine concerns about practices which could breach laws, regulations or our own ethical standards. Drax has a zero tolerance of retaliation or victimisation and we have processes in place to apply appropriate consequences, should an individual retaliate against or victimise a reporting individual in any way.

In 2021, the Speak Up (whistleblowing) programme was subject to an internal audit, achieving a positive outcome, with four recommended actions relating to consistent awareness raising and role specific training – these actions are being progressed. In July 2021, the programme was also deployed to our Canadian colleagues at Pinnacle.

During 2021, 14 reports were raised across both our internal and external channels. This is an increase from nine in the previous year and reflects our continued efforts to promote an open and approachable culture of "speaking up" across Drax. No whistleblowing related matters raised in 2021 remained under investigation at the date of this report. See also page 106.

Corporate Criminal Offences (CCO) (anti-facilitation of tax evasion)

We have designed our ethical due diligence and payment procedures to make sure we conduct our business in accordance with all applicable tax laws. We commit to never knowingly being complicit in a third party evading taxes.

In 2020, our programme was subject to an internal audit with a positive outcome, and recommended actions were completed throughout 2021. For example, in 2021 we included our dedicated CCO Policy as a compulsory part of colleague new starter inductions as well as relevant UK non-permanent worker inductions. We reviewed associated programme documentation for compliance with relevant Canadian laws, which will be updated and deployed in 2022.

Financial and trade sanctions

We are committed to conducting our business in accordance with relevant financial and trade sanction regimes. This is predominately reflected in our ethical due diligence and contracting processes. In 2021, a dedicated programme on this topic was initiated and our first programme risk assessment and register were presented to the EBCC for their review. Enhancing and maturing this programme will be a key focus for 2022.

Non-financial information statement

We have summarised our policies and disclosures in relation to non-financial matters, in line with the Non-Financial Reporting (NFR) requirements of the Companies Act 2006. Drax is a participant of the United Nations Global Compact (UNGC). This report forms our UN Global Compact (UNGC) Communication on Progress and we have mapped the NFR requirements to the four issue areas of the Ten Principles of the UNGC.

Except where indicated as an internal policy, all policies and codes are available at www.drax.com/about-us/corporate-governance/compliance-and-policies/

UN Global Compact	Non-Financial Reporting requirement	Policies, due diligence processes and outcomes	Page
Environment	Environmental matters	Group Environment policy	
		Group Climate policy	
		Sustainability policy	
		Responsible Sourcing policy	
		Carbon emissions	49
		Environmental management	53
		Nature positive	55
Labour	Employees	Code of Conduct	
		Supplier Code of Conduct	
		Group Safety, Health and Wellbeing policy	
		Human Rights policy	
		Gender Pay Reporting	
		Safety, health and wellbeing	57
		People, culture and values	59
	Social matters	Community and Charity policy (internal policy)	
		Positive social impact	56
Human rights	Respect for human rights	Supplier Code of Conduct	
		Human Rights policy	
		Modern Slavery Act statement	
		Ethics and integrity	61
Anti-corruption	Anti-corruption and anti bribery matters	Code of Conduct	
		Anti-Bribery and Corruption policy (internal policy)	
		Ethics and integrity	61
	A description of the Company's business model	Business model	6
	A description of the principal risks	Climate-related financial disclosure	64
		Principal risks and uncertainties	76
	A description of the non financial key performance indicators	Remuneration committee report	130
		ESG data supplement 2021 www.drax.com/sustainability	

Climate-related financial disclosure

Climate-related financial disclosure

CDP Climate
The CDP Climate questionnaire is aligned to the TCFD recommendations. In 2021, Drax was awarded a score of A-.

The recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) provide a framework for consistent disclosure of climate-related information. Drax is a TCFD supporter, and we provided our first dedicated disclosure in our Annual Report and Accounts 2020.

To progress along our TCFD journey, we have expanded our TCFD disclosure in this report. In compliance with FCA LR 9.8.6(8), our disclosure is consistent with the four recommendations and 11 recommended disclosures. We provide our most material disclosures in this report, and our ESG Data Supplement provides supplementary detail, including a TCFD Summary cross-reference table and scope 3 emissions breakdown (see www.drax.com/sustainability).

We recognise that climate-related financial disclosure is an evolving practice globally and a journey of continual improvement for Drax. The table below summarises our progress and areas to deliver further improvement in 2022.

TCFD Pillar	Action for 2021	Progress in 2021	Actions planned for 2022
Governance	Continue schedule of engagement throughout the year with the Executive Committee and the Board on climate-related matters.	The Board was engaged and considered papers on matters including a sustainable development framework, TCFD disclosure, ESG financing, and carbon targets. See page 65	Consult the Board and Executive Committee on internal carbon targets and carbon reduction plans, and agree KPIs against which the Board and external stakeholders can assess our progress.
Strategy	Undertake scenario analysis exercise.	We have undertaken a high-level qualitative analysis considering the impact to our business under different transition and physical climate risk scenarios. See page 68	Undertake in-depth analysis on the physical climate risks across our biomass pellet supply chain, and build on the climate scenario analysis completed in 2021.
Risk Management	Undertake targeted analysis of the risk areas identified for further assessment in 2021.	We developed and completed an asset-level physical risk assessment, to assess in greater detail the potential physical risks to our Generation and Pellet Production operations. See page 71	Build on the first phase of the asset-level physical risk assessment, considering additional climate scenarios over longer time horizons.
Metrics and Targets	Set and publish a scope 3 target.	We developed a scope 3 target that enables us to align to the Science Based Targets initiative (SBTi) and we submitted our targets to the SBTi for validation. See page 71	Develop internal carbon targets, underpinned by carbon reduction plans, outlining the financial and human capital we will deploy for implementation, for approval by the Board.

Governance

Strong governance that embeds climate change in decision-making at all levels of the business

Our approach

Our Climate Policy, approved by the Board, outlines our approach to integrate effective management of climate-related risks and opportunities into everyday decision-making and delivery of our business strategy (available at: www.drax.com/about-us/compliance-and-policies).

Responding to climate change is a core component of our Group purpose, and this is reflected in our governance framework. The Board's oversight and management's role in assessing and managing climate-related matters are outlined on page 65.

> "During 2021, we strengthened our processes for climate risk identification and assessment, scenario-mapping, and management. This included establishing the Carbon Oversight Group to act as a Risk Management Committee, reviewing and challenging the climate change principal risk.
>
> Philip Cox, CBE, Chair

Drax Group plc Board

Climate change factors are considered in decisions taken by the Board, reflecting the Board's duty to consider all stakeholders. The CEO reports quarterly to the Board on Environment, Social and Governance (ESG) performance, including climate-related matters. At the Group's interim and full year, the Board examines the climate change principal risk, considering key evolving challenges and potential mitigations.

Key activity in 2021:

- In October, the Board reviewed our strategy and progress, and established our new strategic objectives (see page 68), which are aligned to global renewable energy and decarbonisation agendas. The strategic objectives are underpinned by safety, sustainability and cost reduction, and support Drax's commitment to our purpose, to enable a zero carbon, lower cost energy future. These were shared with investors and analysts at our Capital Markets Day held in December 2021
- The Board considered and approved a multi-million capital investment programme for 2022, to progress the development of BECCS at Drax Power Station
- The Board was engaged to provide guidance and approval on a sustainable development framework, and considered a paper on the carbon target landscape, which led to the formal adoption of carbon targets for Science Based Targets initiative validation and follow up actions
- The Board considered a paper on climate-related disclosure and received an update on management's progress against plans for addressing the TCFD recommendations
- Our 2021 CDP Climate submission was reviewed and signed off by the CEO
- The Board considered and approved an ESG-linked term loan (see page 68)

See Corporate governance report **page 94**

Audit Committee

Responsible for reviewing and approving the annual report, including climate-related financial disclosures. Reviews systems of internal control and risk management.

Remuneration Committee

Oversees the Group's approach to remuneration, including the provision within our bonus plan of strategic and sustainability targets.
For more information see page 130.

Executive Committee

Focuses on the delivery of Drax's strategy, financial structure, planning and performance, which includes our ambition to become carbon negative by 2030. The Executive Committee considers the political landscape and implications for future investments and execution of strategy. The climate change principal risk is owned by the Director of Corporate Affairs, a member of the Executive Committee, and the risk is subject to an annual deep dive review.

Key activity in 2021:

- In April 2021, the Executive Committee undertook a deep dive review of the climate change principal risk register, challenging the assumptions, mitigations and controls which had been identified
- At the interim and full year, examined the climate change principal risk, considering key evolving challenges and potential mitigations for recommending to the Board
- Provided guidance and approval on a developing sustainable development framework, and considered a paper on the carbon target landscape, which led to the formal adoption of carbon targets for Science Based Targets initiative validation and follow up actions
- Supported the establishment of a Carbon Oversight Group

Group Business Functions

Finance
Responsible for consideration of the impact of climate-related matters on the financial statements, executing ESG financing, and managing ESG investor communications.

Corporate Affairs
Responsible for Drax's sustainability programme, co-ordination of climate change principal risk register, ESG disclosure, data and assurance, and policy engagement.

HSE
Responsible for assessing and reporting on environmental compliance and performance.

Carbon Oversight Group

The Carbon Oversight Group (COG) was established in 2021 to strengthen our governance of climate-related matters. It has representation from multiple business functions and meets twice a month.

COG is responsible for co-ordinating all aspects of carbon measurement, disclosure and policy, ensuring the Executive Committee is informed of key issues and involved in significant decisions. From 2022, COG acts as a Risk Management Committee for review and challenge of the climate change principal risk register.

Remuneration

Our 2021 Group Scorecard, which is used to determine bonus awards for Executive Directors and eligible colleagues, included a target on Pinnacle sustainability standards and performance. In 2022, a new Group Scorecard carbon reduction metric is being adopted, linking remuneration to actions that support the delivery of our long-term target to be net zero by 2030.

Corporate Governance Report **page 94**

See Remuneration Report **page 130**

For information on the 2022 Scorecard see **page 30**

Taskforce on Climate-related Financial Disclosures >

Strategy

A purpose, strategy, and ambition that places climate change at the heart of what we do

Climate-related risks and opportunities

The tables below summarise the most material climate-related risks and opportunities which Drax has identified and the key activities we undertake to mitigate risks or to realise our key objectives.

Our processes for identifying, assessing and managing climate-related risks are described on page 71.

> Tackling climate change is at the heart of our purpose – to enable a zero carbon, lower cost energy future – and our ambition – to become carbon negative by 2030. Drax is committed to helping the UK and the wider world to achieve its climate targets.
>
> Will Gardiner, CEO

Climate-related risks

Risk Type and Description	Timeframe[1]	Business Response (mitigation)
Physical Risks		
Physical risks to Pellet Production operations and supply chain in the US and Canada Increased frequency and severity of event driven (acute) physical risks from climate change – such as extreme weather events, including hurricanes, flooding and wildfires. By way of example, the fires experienced in Canada, which occurred through the late summer of 2021, disrupted supply lines including rail. Flooding can also impact the ability of ships to load cargo safely which can cause delays in delivery schedules. Extreme weather events have potential to cause damage to assets, and impact on raw material supply to, and pellet transport from, our pellet production facilities in the US and Canada, with potential impact to end users including Drax Power Station and third-party customers.	Short, Medium and Long-term	There are existing resilience measures in the design and location of our assets – such as additional on-site storage capacity, wet weather timber tracts, and expansion of our self-supply locations across diversified geographies. Considered alongside our ability to source pellets from multiple locations and third parties, these are intended to mitigate risks of extreme weather impacting supply. We are also evaluating alternative fuels using different feedstock types and considering wider sourcing geographies. In 2021, we acquired Pinnacle, a major producer and supplier of bioenergy pellets. This geographically diversified asset base enhances Drax's sourcing flexibility and security of supply, adding 2.9Mt of production capacity. We now have 17 operational pellet plants and developments across the US and Canada. We maintain an asset-level register for the assessment of local, physical climate change risks to each pellet plant. This detail enables us to track and review the appropriate mitigations by site. In 2022 we will undertake in-depth analysis on the physical climate risks across our biomass pellet supply chain, building on the initial climate scenario analysis completed with a third party in 2021.
Physical risks to Drax Power Station operations and rail transport routes in the UK Increased frequency and severity of event driven (acute) physical risks from climate change – such as extreme weather events, including heavy rainfall, flooding and high winds. Extreme weather events have potential to cause damage to assets, and to impact on rail supply infrastructure, that could restrict or reduce deliveries of fuel to site. For example, flooding in February 2020 interrupted rail deliveries to Drax Power Station.	Short, Medium and Long-term	In the event of flooding impacting rail supply infrastructure to Drax Power Station, we have the immediate capability to revise the schedule of fuel deliveries by rail, based on one rather than two rail lines. Single line working enables the supply chain to continue functioning whilst emergency repairs take place, should this be required. Following the flooding event in 2020, the risk has been reduced with significant investment by Network Rail, in three phases of work to strengthen the resilience of the branch line, completed in 2021.
Transition Risks		
Policy risks related to unabated gas generation in the UK Policy risks related to the transition to a low carbon economy include UK Government changes in climate policy that may impact power generation, such as unabated gas generation. Policy changes may impact decisions regarding the continued development, construction and operation of our four Open Cycle Gas Turbine (OCGT) development options.	Medium and Long-term	Our three strategic objectives are focused on: sustainable biomass pellets, negative emissions, and UK dispatchable, renewable power. We are committed to the decarbonisation of our portfolio, in line with our ambition to become carbon negative by 2030. We believe there is a need for flexible, dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050. In 2021 we sold our CCGT gas business, focusing strategically on development of a long-term future for sustainable biomass, development of options for negative emissions technology, and provision of system support services. Drax will evaluate options for all four OCGT projects, including their potential sale.

Transition Risks continued		
Policy and legal risks related to biomass lifecycle GHG emission limits in the UK The UK Government has set a limit on biomass supply chain GHG emissions, which must be met by generators to be eligible for support under the Renewables Obligation and Contract for Difference schemes. Changes to restrictions placed on imported feedstocks, either caps, or more stringent biomass lifecycle GHG emissions restrictions, could lead to the inability to source biomass in sufficient quantities or requirement to procure at a greater cost, which could affect our financial performance.	Medium and Long-term	The current UK Government limit for GHG emissions is 200 $kgCO_2e$/ MWh of electricity. In 2021, our average biomass supply chain GHG emissions amounted to 100 $kgCO_2e$/MWh of electricity, significantly below the required threshold. We have developed a scope 3 target that enables us to align to the Science Based Targets initiative (SBTi) and we submitted our targets to the SBTi for validation. We continue engagement with key policymakers and stakeholders around our biomass supply chains, highlighting the benefits of biomass from sustainably managed working forests.

(1) Time frames are defined as: short (1 year), medium (1-5 year), long (5+ year)

See also Principal Risks and Uncertainties page 76

Climate-related opportunities

Opportunity Type and Description	Timeframe[1]	Business Response (strategy to achieve)
Opportunity		
Development of new sustainable biomass pellet capacity and self-supply In the UN Intergovernmental Panel on Climate Change (IPCC) special report on limiting global warming to 1.5°C above pre-industrial levels, bioenergy use is substantial in 1.5°C pathways with or without CCS, due to its multiple roles in decarbonising both electricity generation and other industries that depend on fossil fuels. One of our strategic objectives is to be a global leader in sustainable biomass pellets. Drax is targeting 8Mt p.a. of production capacity by 2030, for third-party sales, UK BECCS and generation, and balance of supply from other lower cost biomass sources and third parties. Increasing our self-supply capacity will strengthen our ability to build a long-term future for sustainable biomass and support decarbonisation aims.	Long-term	We are building on our existing capabilities to develop new-build opportunities for large pellet plants and satellite developments. In 2021, we completed the acquisition of Pinnacle, a major producer and supplier of bioenergy pellets. Combining Pinnacle with our existing assets, we now operate 17 operational pellet plants and developments, in the US southeast and Canada, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and located in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to growing markets in Japan and Korea, where we already have long-term contracts, the UK and mainland Europe, which we can service out of the US southeast. Our strategy is focused on continued reduction in pellet production costs. We have invested in pellet production operational efficiencies, improvements, expansion and acquisition. See page 18.
Development of Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station Negative emissions are a critical part of multiple climate pathways limiting warming to 1.5°C. The UN IPCC identifies BECCS as a key technology, with a clear role to play in the achievement of decarbonisation pathways. One of our strategic objectives is to be a global leader in negative emissions. At Drax Power Station, we are developing options to retrofit BECCS, and targeting 8Mt p.a. of negative emissions by 2030. Achieving this could make Drax Power Station the world's first carbon negative plant at scale and would develop a model for further BECCS retrofit.	Long-term	At Drax Power Station, between 2018 and 2020, we completed two BECCS pilot projects. In 2021, we selected our technology partner, agreeing a long-term contract with Mitsubishi Heavy Industries Engineering for Drax to use its carbon capture technology, the Advanced KM CDR process™. We completed a pre-Front End Engineering Design (FEED) study and commenced the planning application, including formal public consultation on the project. Also, in 2021, the East Coast Cluster was selected as a priority cluster for deployment of Carbon Capture and Storage infrastructure. We have announced a capital investment programme of £40 million to be made during 2022, to progress the development of BECCS at Drax Power Station – including site preparation works, decommissioning of coal infrastructure, and commencement of work on the FEED phase. As part of this investment, Drax has selected Worley Europe Limited to begin the FEED work in 2022.

(1) Time frames are defined as: short (1 year), medium (1-5 year), long (5+ year)

Taskforce on Climate-related Financial Disclosures >

Impact of climate-related risks and opportunities on our strategy

In October 2021, the Board reviewed the Group's strategy, the progress which has been made, and established revised strategic objectives, which are aligned to global renewable energy and decarbonisation agendas.

Objective 1:
to be a global leader in sustainable biomass pellets

Objective 2:
to be a global leader in negative emissions

Objective 3:
to be a leader in UK dispatchable, renewable power

The strategic objectives are underpinned by safety, sustainability, cost reduction, and significant investment, and support Drax's commitment to our purpose, to enable a zero carbon, lower cost energy future.

ESG-linked term loan

In July 2021, we completed the refinancing of Canadian dollar facilities, acquired as part of the Pinnacle transaction, into a C$300 million ESG facility. The ESG-linked term loan agreement includes an embedded ESG component and adjusts the margin based on Drax's carbon intensity (carbon emissions per GWh of electricity generated) measured against an annual benchmark. This is consistent with our continued strategic focus on reducing our carbon emissions.

ESG-linked multi-asset derivative solution

In April 2021, we announced an ESG-linked FX solution with two banks which incorporated the existing carbon intensity metric shared by the wider ESG financing agreements. In August 2021, we extended the solution to become multi-asset including both FX and inflation.

Climate scenario analysis

During 2021, we advanced our scenario analysis work by considering both transition and physical climate risks to our business under different climate scenarios. This work will continue to inform our risk processes, strategy and business planning.

We considered two transition scenarios and two physical climate change scenarios out to the year 2030. Over this time period our strategic objectives include implementing BECCS at Drax Power Station, developing the Cruachan 2 pumped storage scheme, expanding our pellet production capacity, reducing costs and carbon throughout our biomass supply chain, and growing our decarbonisation services through our Customers business.

The scenarios were defined based upon the external projections available, and suitability to 'stress test' the risks of both a rapid transition and of high physical warming.

Disclosing our impacts to 2030 aligns with our strategic planning and prioritises impacts that may be felt more significantly over this time period, while also being mindful of the action needed to respond to longer term climate impacts.

In the analysis, we first assessed the impacts of the scenarios without factoring in actions we might take to adapt to climate change (apart from actions which were already in progress), or actions to take opportunities related to the transition to a climate resilient net zero economy. Following this we considered some of the strategic options available to us to enhance our resilience under each scenario.

Key assumptions

Several factors affect our performance, many of which are not within our control. Therefore for the purposes of qualitative climate scenario analysis, we have made some key assumptions across all scenarios, which were developed in line with guidance from the TCFD. Our key assumptions include the following:

- The global economy and financial markets remain relatively stable.
- The regulatory framework for the electricity market in the UK remains broadly the same, except for changes to enable the transition to net zero.
- No significant change to societal behaviours around electricity use in the UK, except for overall increase in electricity demand due largely to the increase in electric vehicles and electrified heat.
- No significant change to our business due to employees, customers, and suppliers except for specific impacts we have identified under each scenario.
- No significant change in access to key assets such as biomass sources, ports, and transport links, except occasional disruption during extreme weather events.

Transition risk scenario analysis

Transition risk scenarios

To further understand transition risks to our business, we have undertaken a high-level analysis by considering impacts under two transition scenarios which we have defined by making several simplifying assumptions:

- **Rapid transition '1.5 degree' scenario:** Rapid and comprehensive changes are made to progress decarbonisation goals, beyond current global pledges, to limit warming to 1.5°C by 2100. Co-ordinated global action occurs, including changes to policy, regulation, technology, and markets to support decarbonisation and carbon removal by 2030, aligning with the ambitions of the Paris Agreement.
- **Slow transition 'existing global policies' scenario:** The existing global policies and pledges are maintained without further ambition and action to progress decarbonisation goals, resulting in potential warming above 3°C by 2100. Changes across the economy and society are less rapid and less comprehensive by 2030, and UK Government support for biomass generation ceases beyond 2027. Policy is fragmented and ad-hoc across our operating regions.

Transition scenario impacts

The main impacts to our business we have identified under the **'1.5 degree' transition scenario** include:

- **Our Generation business benefits from increased demand and acceleration of net zero:** Government support for Drax enables us to develop BECCS and Cruachan 2 pumped storage, which would help the Grid to meet increased demand for renewable electricity and system stability services in the UK.
- **Our Pellet Production business benefits from increased global demand:** Our work collaborating with industry and contributing to the development of sustainable biomass standards helps to strengthen our long term position in being a global biomass supplier.
- **Our costs could increase due to carbon pricing and specific requirements for biomass and shipping in the UK:** Our plans to reduce carbon intensity and costs throughout our supply chain help us to manage impacts, and our actions to explore alternative fuels and increase the use of forest residuals help us to continue to meet biomass requirements, reduce costs, and reduce reputational risks. To manage potential inconsistencies in shipping regulations in different territories, we continue to engage with international shipping regulators. Our ability to source biomass pellets from multiple locations, and our ability to sell biomass pellets to multiple customers, enhances our resilience.
- **Our Customers business benefits from increased demand for services:** Renewable electricity demand would increase and enhance the opportunity for our Customers business to support customers to decarbonise and optimise their energy consumption. Demand for the supply of gas would decrease, however this would not have a significant impact on our business.

The main impacts to our business we have identified under the **'existing global policies' transition scenario** include:

- **Reduced support for BECCS or pumped storage from UK Government:** In this scenario we would either not receive any support or there could be delay and uncertainty in support from the UK Government, resulting in significantly reduced revenue and possible devaluation of our biomass generation assets, which could impact our financial performance. This could also have significant negative impacts not only for our business but for the UK, as we believe BECCS has a key role to play in achievement of net zero commitments.
- **Slower electrification in the UK:** Demand for renewable electricity and decarbonisation services would be lower than the '1.5 degree' scenario, resulting in a loss of potential avenues for revenue growth for our Generation and Customers businesses. We have the option to operate biomass generation for the wholesale electricity market, and could obtain a Capacity Market contract. In this scenario our revenue is more exposed to electricity market prices and volatility.
- **Slower growth in biomass demand:** UK demand for pellets would potentially reduce, however we would continue to supply our broadening customer base in Asian and European markets under our long-term supply contracts.

Our strategic response under transition scenarios

Under the **'1.5 degree' transition scenario** our strategic response could include the following:

- Subject to UK Government support and progress with our partners, we believe we would have the potential to build BECCS as a growth platform, accelerating plans to provide expertise to other parts of the UK and internationally.
- Our Pellet Production business could be expanded further and more rapidly, to take advantage of increased global demand, though we recognise the threat of increased competition which could affect such prospects.
- We would have further potential to grow our Customers business' offering related to carbon offsets, renewable energy certificates, and Power Purchase Agreements (PPAs).
- We could explore options to convert unused coal generators at Drax Power Station to revenue generating options.

Under the **'existing global policies' transition scenario** our strategic response could include the following:

- Given that biomass generation will play an important role to help meet increased demand for renewable electricity, we could explore options with the UK Government to support biomass generation. We could also explore options for developing BECCS internationally, where supportive infrastructure can be put in place.
- We could consider options to optimise our generation portfolio to take advantage of market conditions, which could include investing in additional generation and system stability and support assets, and matching generation to higher demand periods to take advantage of price volatility. We could also explore options to convert unused coal generators at Drax Power Station to revenue generating options. Such investments will also be dependent on adequate future returns, national and regional approval from regulators and the available financial resources for the upfront investment.
- Depending on market conditions for biomass pellets, we may choose to decelerate expansion of our Pellet Production business, or continue expansion and explore options to expand our customer base.
- Our Customers business has the option to become further specialised and target decarbonisation and optimisation services.

Physical risk scenario analysis

Physical risk scenarios

To further understand physical climate risks to our business, we have undertaken a high-level analysis by considering impacts under two physical climate scenarios which we have defined based on the IPCC's Representative Concentration Pathways (RCPs) and by making several simplifying assumptions:

- **'Current level' of physical impacts (approximated to RCP2.6):** Very ambitious and effective global action to mitigate climate change results in less than 2°C warming by 2100. The physical impacts of climate change are limited by 2030, despite some impacts continuing to increase beyond this time due to the lag in climate systems and greenhouse gas emissions. Changes across the economy, society, and environment are limited in response to physical climate change. This scenario is generally considered to be optimistic.
- **'High level' of physical impacts (approximated to RCP8.5):** Low ambition or low effectiveness on global action to mitigate climate change results in more than 4°C warming by 2100 (despite the high ambition set by the UK). The physical impacts of climate change are more pronounced by 2030 and continue to increase significantly beyond this time. Changes across the economy, society, and environment are more pronounced in response to physical climate change. This scenario is generally considered to be pessimistic but remains plausible due to uncertainties in the global earth-climate system and commitments from countries to realising existing targets.

Physical scenario impacts

The main impacts to our business we have identified under the **'current level' of physical impacts scenario** include:

- **Similar frequency of disruptions to our generation business compared to the past decade:** We would experience infrequent disruption to our generation business, such as high river water temperatures impacting our ability to discharge cooling water for a short period of time. This could result in us exceeding our discharge permit and receiving a penalty. The risk from flooding, which disrupted transport of pellets to Drax Power Station in 2020, would be reduced, due to recent investments being made by Network Rail.
- **Similar frequency of disruptions to our Pellet Production business compared to the past decade:** We would see similar levels of disruption to biomass sourcing, pellet production, transport and shipping due to wildfires, floods, pests, and extreme weather events infrequently disrupting our supply chain with relatively small financial impacts. Our ability to source biomass from multiple locations helps to reduce risks to our supply chain, and our storage of pellets onsite at Drax Power Station provides us a buffer to absorb short-term supply chain disruptions.

The main impacts to our business we have identified under the **'high level' of physical impacts scenario** include:

- **Greater frequency of disruptions to our Generation business compared to the past decade:** More frequent high river water temperatures could impact our ability to discharge cooling water at Drax Power Station. Supply of cooling water may also be impacted if abstraction reductions are enforced. Our hydro generation could face increased risk from flooding. These events would reduce our revenue and increase expenditure to manage impacts, reducing our operating margins and potentially devaluing our generation assets which are exposed to physical risks.
- **Greater frequency of disruptions to our biomass supply chain compared to the past decade:** Our Pellet Production and biomass supply chain would face greater disruption and damage to assets due to more frequent extreme climate events such as windstorms, floods, wildfires, and potential increases in pests. Transport of pellets is particularly exposed. While biomass growth may be enhanced due to higher temperatures, our ability to benefit from this will depend on market conditions for pellets. Existing resilience measures in the design and location of our assets would be expected to help limit financial impacts, coupled with our ability to source pellets from multiple locations. It is likely our costs would increase to manage and recover from disruption and damage, which would affect our financial performance and results.
- **Potential increased electricity demand from major customers during extreme events:** Some of our major customers may have short-term increased demand for electricity to manage specific impacts, such as heavy rainfall and flooding, and higher demand for cooling in summer. These increases in demand will be less significant to our business compared to more fundamental and long-term increases in electricity demand, driven by electric vehicles and electrified heat.
- **Potential for greater electricity price volatility:** The physical impacts of climate change on electricity generators, the grid, and distributors could lead to higher electricity price volatility. Our portfolio of dispatchable renewable electricity generation assets positions us well to respond to this volatility.

Our strategic response under physical climate scenarios

Under both of the physical climate scenarios, our strategic response to mitigate adverse events could include the following:

- We are collaborating with the regulating authority to manage our cooling water permitting conditions to reduce the risk of disrupting generation.
- We are exploring options to enhance climate resilience in key hotspots across our businesses to reduce operational and financial impacts from physical risks, including working in partnership with others.
- We regularly explore options to provide greater storage of pellets to increase our buffer to supply chain disruptions, including contracting storage where required.
- We seek to offset the near-term impact, for example through insurance cover where appropriate, and we could explore options to make up revenue through optimising the operation of our generation portfolio, such as selling dispatchable renewable electricity during high demand periods.

Assessment of resilience

While impacts on our business units and financial prospects and performance of the Group could be significant under particular climate scenarios (such as the slow transition scenario), the Board believes we have a range of strategic options and we expect to have the necessary capital to manage impacts, take opportunities and remain resilient under the wide range of scenarios considered.

We are continuing to explore options to enhance our resilience to climate risks. During 2022 we will undertake work to further enhance our assessment of physical climate risks to our biomass supply chain. This will allow us to consider and prioritise emerging and evolving risks, in addition to exploring further measures to mitigate and enhance our resilience to physical climate risks.

Risk Management

Climate-related risks integrated into our Group-wide risk management approach

Integration of climate-related risk management into Group approach

The identification, assessment and management of climate-related risks is integrated into our Group-wide approach to risk management, as defined by the Group Risk Management Policy. Climate change is a principal risk category assessed within this approach. The climate change principal risk is owned by a member of the Executive Committee and subject to an annual deep dive review by the Executive Committee. An analysis of all principal risk categories, including climate change, is made and presented to the Executive Committee and Board twice a year.

In April 2021, the Executive Committee undertook a deep dive review of the climate change principal risk register, challenging the assumptions, mitigations and controls which had been identified.

Processes for identifying, assessing and managing climate-related risks

The climate change principal risk register is administered by the sustainability function. Each risk has an owner (business unit management), accountable for monitoring the risk, providing updates, and ensuring mitigations are fit for purpose. During the year, a Carbon Oversight Group (COG) was established and from 2022 will act as the Risk Management Committee for review and challenge of the climate change principal risk register (see Governance page 65).

Following the acquisition of Pinnacle, we have integrated Pinnacle's climate-related risks into our principal risk register and we included the new assets in the work described below.

During 2021, we focused on strengthening our processes for climate risk identification, assessment, and management. This included the development of an asset-level physical risk assessment, designed to assess in greater detail the potential physical risks to each of our Generation and Pellet Production assets. An assessment template was developed and completed in collaboration with HSE colleagues across the Group. It enables us to assess each operational asset's potential exposure to a set of physical climate parameters most relevant to the respective geography (Canada, US, and UK). This provides a tool for consistent monitoring of local physical climate risks and a basis from which to further plan, implement and track mitigations for our sites. Asset-level risks are also escalated to the principal risk register according to their risk rating. In 2022 we will build on this first phase, considering climate scenarios over longer time horizons, to assess how the climate parameters and their impact may develop in the future.

We also worked with a third party to complete a scenario analysis exercise, considering two transition scenarios and two physical climate change scenarios out to the year 2030 (see climate scenario analysis page 68). Key operational, finance, and strategy colleagues were engaged in the analysis through a series of workshops, conversations, and review of documentation. The outputs of this work also informed an update to our principal risk register.

See Principal Risks and Uncertainties **page 76**

Metrics and Targets

Our ambition is to become carbon negative by 2030

Metrics

We disclose our scope 1, 2 and 3 greenhouse gas emissions, carbon intensity, and energy use in the carbon emissions section of this report (see page 50). In our ESG Data Supplement we provide additional climate-related metrics, including a breakdown of scope 3 emissions by category (see www.drax.com/sustainability). We measure scope 1, 2 and 3 greenhouse gas emissions to assess and manage each of the risks identified on pages 66 to 67, and we will explore whether there are additional relevant metrics to report on during 2022. We will keep our metrics under review to ensure the data we capture and disclose provide the information that Drax and our stakeholders require to track our performance and demonstrate progress.

Targets

Our ambition is to become carbon negative by 2030. This applies across our direct business operations globally (scope 1 and 2 emissions).

Our Group target is to achieve net zero across our scope 1, 2 and 3 emissions by 2030. We plan to achieve this by reducing emissions as far as possible while using removals delivered through BECCS to neutralise our remaining emissions.

We are committed to the Science Based Targets initiative (SBTi). In 2021, we developed a scope 3 target that enables us to align to the SBTi and we have submitted the following targets to the SBTi for validation:

- 75.7% reduction in scope 1 and 2 emissions from electricity generation by 2030, against a 2020 baseline;
- 42% reduction in non-generation scope 1 and 2 emissions by 2030, against a 2020 baseline; and
- 42% reduction in scope 3 emissions by 2030, against a 2020 baseline.

By 2050, our aim is to deliver removals far in excess of emissions. However, to ensure we remain aligned with science, we further intend to set a SBTi net zero target for 2050, requiring a minimum emissions reduction of 90-95% across all scopes.

In 2022, a new Group Scorecard carbon reduction metric is being adopted, linking remuneration to actions that support the delivery of our long-term target to be net zero by 2030. For information on the 2022 Scorecard see page 31.

To facilitate delivery of our Group targets, we will develop a set of internal sub-targets for all material sources of carbon emissions across the business, including Generation and Pellet Production. Each sub-target will be underpinned with a dedicated carbon reduction plan.

See Carbon Emissions **page 49**

We see things differently

We look at the world and see possibilities in how we can help to solve the climate crisis. We seek new ways of doing things. We re-purpose existing assets (such as the coal to biomass conversion), use our expertise and new technologies to innovate (such as BECCS or alternative fuels), and embrace opportunities to learn so we can become even better.

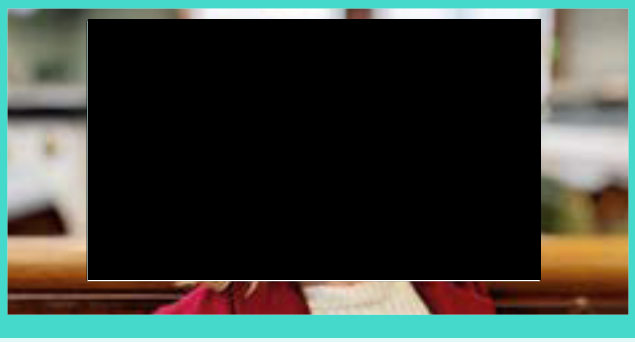
"We're leading the world in tackling climate change."

At Drax Power Station we're making significant progress on developing our pioneering, industrial scale, negative emissions technology (BECCS).

Through BECCS, we're targeting 8Mt of negative CO_2 emissions each year at Drax Power Station by 2030. The role of this negative emissions technology will be vital in helping the UK reach its net zero targets, as well as creating and protecting thousands of jobs and kickstarting a new green economy.

With this innovative technology, we're leading the world in tackling climate change.

Jeni Reeve
Project Engineer (BECCS)



Carbon negative company by 2030

Targeting 12Mt of negative emissions globally by 2030

In this section

Viability Statement

The Board conducted this assessment over a period of five years (2020: three years), extended as a result of the stage of the planning cycle and strategy development the Group has reached during the year.

Find out more on **pages 74 to 75**

Principal Risks

Identifying, assessing and managing risks across the business is an integral part of supporting the Group's strategy and delivering sustainable performance and growth.

Find out more on **pages 76 to 91**

Viability statement

In accordance with the UK Corporate Governance Code 2018, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

The assessment of viability was led by the CEO and CFO, in conjunction with management teams, and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board considered the principal risks faced by the Group, financial forecasts and sensitivities, availability of funding and the strength of the Group's control environment. Detail is also provided on longer-term risks.

Assessment period

The Board conducted this assessment over a period of five years (2020: three years), extended as a result of the stage of the planning cycle and strategy development the Group has reached during the year, and considering:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and also used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a one-year period in detail, before extending into the medium term. Five years is considered to be an appropriate mid-point in this range, when considering length of forecast and expected accuracy over the forecast period.
- Within the forecast period, liquid commodity market curves and established contract positions are used. Liquid curves typically cover a one to two-year window and contracted fuel commitments with third parties extend out to five years. The Group's foreign exchange exposure is actively hedged over a rolling five-year period. In particular, the Group benefits from the stable and material earnings stream available from the CfD and RO subsidies until 2027. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- A significant proportion of the Group's debt facilities mature in this period, with 61% maturing in the four to five-year window.
- There is limited certainty around the Group's markets and regulatory regimes. However, the Board has assumed no material changes to the medium-term regulatory environment and associated support regimes beyond those already announced at the date of this report.

The business considers longer term forecasts for other purposes, including value in use analyses and estimates of useful economic lives, in line with the requirements of accounting standards and as set out in the notes to the financial statements.

Review of principal risks – viability

The Group's principal risks and uncertainties, set out in detail on pages 76 to 91 have been considered over the period. The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise unmitigated. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process.

Relevant principal risks

The principal risks with the potential to exert significant influence on viability are considered to be: commodity price changes, political and regulatory changes and plant operating failures. A significant adverse change to the status of each risk has the potential to place material financial stress on the Group.

A summary of the scenarios modelled can be seen below. In addition to modelling the impacts on a standalone basis, reasonable scenarios that included a combination of unforeseen plant outages, adverse movements in commodity prices and reductions in subsidy income were also considered.

As part of its review of principal risks and uncertainties, the Group considered risks related to climate change. This review concluded that such matters remained low risk to the Group over the period that viability has been assessed. In particular, the work performed over climate related risks, as part of the TCFD process (see page 49), and in our impairment analysis, suggests that climate change does not currently present a significant threat to viability. The most likely way in which climate change risks could manifest is if they caused a failure in plant operations, either in the Pellet Production or Generation businesses. The impact of these scenarios are included in the analysis as noted in the table below.

The outcomes of this, which did not reflect the benefit of available mitigating actions, indicated that the Group would be able to absorb these scenarios without significant impact upon its ability to meet liabilities as they fall due.

Consideration of other risks to viability

Strategy

If the Group is not successful in fulfilment of its strategic aims, then this could pose a threat in the longer-term. However, analysis of this risk suggests that this would materialise beyond the assessment period, and therefore consideration has been presented in the longer-term risks section below.

Remaining principal risks

The remaining principal risks were considered and were not deemed to present a significant threat to viability over the assessment period.

Longer-term risks

On a time horizon extending beyond the viability period, the two principal risks which are believed to be most significant are climate change and strategy.

Principal risk	Description of scenario modelled
Trading and commodity	Power price downturn
Political and regulatory	Zero ROC recycle value after CP21
Plant operations/Climate change	10% increase in biomass forced outage rate
	90-day outage on CfD unit (in 2022)
	90-day outage on ROC unit (in 2022)
	Two-month outage of pellet production plants
Reasonable worst case	Combination of the scenarios above
	Prolonged period of volatile power prices coupled with generation outages

Climate change could have a physical impact via an increase in the frequency of extreme weather events, leading to sustained reduced profitability for the Group as a result of supply chain disruptions. However, this also provides the Group with an opportunity, as we believe that we have a vital role to play in the ambitions to limit global warming being realised. In addition, as the speed of transition to lower-carbon/net-zero increases there is a risk that new policies and regulation impact the Group's operations or plans.

Failure to deliver on our strategic objectives could also pose a threat to the Group's viability. The achievement of these objectives is forecast in the period beyond the assessment period. If returns achieved from the initiatives were significantly below forecasts then, given the level of capital expenditure required to complete the plans, this could present a risk to the Group. However, a detailed analysis of the returns achievable, including reasonably possible downside scenarios and potential impacts on viability, would be performed ahead of any final commitment by the Board to progress strategic initiatives, in line with our long-standing disciplined approach to capital allocation.

In the case of both these risks, the Group has a proven record of rapidly adapting to changes in its environment, and deploying innovative solutions to protect its financial performance. Previous adverse events have arisen and provided challenges which tested the ability of the Group to deliver on its targets but, on each occasion, it has been able to respond positively. This provides the Board with confidence that risks can be sufficiently mitigated, and viability can be maintained during the assessment period.

Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2021. It is built by business and includes growth assumptions appropriate to the markets each business serves. Climate change is also factored into these forecasts, as, for example, forecast future energy prices are based on decarbonisation agendas committed to by the UK government.

The Plan includes assumptions, the most material of which relate to commodity market prices and levels of subsidy support available through the generation of biomass-fuelled renewable power. It is underpinned by the stable revenues available through the generation of CfD-backed electricity and contracted sales from the Customers business.

The Plan is subject to stress testing, which involves the construction of reasonably foreseeable scenarios, including those aligned to the principal risks (described above) which test the robustness of the Plan when key variables are flexed both individually and in unison. Where such a scenario suggests a risk to viability, the availability and quantum of mitigating actions is considered.

As part of stress-testing the Plan, a "reasonable worst case" scenario was constructed and assessed. Rather than a single event, the Board considers the most significant downside scenario that could reasonably arise in the assessment period, and materially impact viability, to be an aggregation of incidents either in a short timeframe or repeatedly during the period. For the purpose of creating the scenario, the severity of these incidents (for example, the duration of an unexpected outage) was based on experience of historical events where possible. Further detail is contained within the 'Relevant principal risks' section above.

The reasonable worst case considered the impact on earnings, cash flow and net leverage as a result of incidents including unexpected generation and pellet production outages, adverse movements in commodity prices and a loss of ROC income during the period. Whilst the outcomes from this scenario were severe, they indicated that the Group would continue to operate within the covenant restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due. Potential mitigating actions were also considered. Such mitigating actions included potentially reducing levels of capital expenditure and dividend payments if required. The impact would also be partially mitigated through the earnings stability provided by the CfD, the Group's ability to trade effectively in volatile markets, use of existing committed facilities and reductions in other expenditure. Based on its review, the Board is satisfied that viability would be preserved in a range of scenarios, with various mitigating actions available, sufficient to manage the risk, should they be required.

Availability of adequate funding

The sources of funding available to the Group are set out in note 4.2 (page 219). The Board expects these sources, along with cash flows generated, to provide adequate levels of funding to support the execution of the Group's Plan.

During 2021, the Group refinanced the debt acquired as part of the Pinnacle transaction. The new facilities comprised a C$300 million term loan and C$10 million RCF. The facilities mature in 2024, with an option to extend by two years, subject to lender consent. These arrangements reduced the overall cost of debt to below 3.5%, strengthening the balance sheet.

Facilities of £364 million, €345 million, $500 million and C$300 million mature during the assessment period. The viability assessment assumes that these are renewed on similar terms. However, if the Group is unable to achieve refinancing within the viability period, the forecasts show that there would be adequate cash available to repay these facilities.

At 31 December 2021 the Group had total cash and committed facilities of £549 million, see note 2.7 on page 200. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the assessment period.

The Board is confident that the Group has access to a range of options to maintain a diverse and well-balanced capital structure.

Expectations

Taking all of the above into account, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Principal risks and uncertainties

The effective management of risk supports the delivery of our strategy

Identifying, assessing, and managing risks across the Group is an integral part of enabling an informed assessment on the potential challenges in delivery of our strategy. The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to manage all key risks in accordance with policies and processes approved by the Board.

Group approach to risk management

The Group has a Risk Management Policy, approved by the Board, which defines its approach to risk management. The key elements of the policy are to:

- Identify risks that have the potential to threaten the achievement of our strategic objectives and assess the likelihood of the risk occurring using a risk scoring methodology, thereby ensuring a consistent approach for assessing all risks.
- Consider the possible impact to the business in the event of any risks arising and put in place appropriate mitigating controls intended to manage identified risks to the target risk level (reflective of the Group's risk appetite).
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Provide a framework to enable the escalation and reporting on potential and emerging risks, and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes in the internal and external environment of our business, review the Group's principal risks against such changes to ensure our analysis remains accurate and relevant, and review the effectiveness of mitigation strategies and the application of the risk management framework.

To support the Group's strategy and deliver sustainable financial growth accompanied by sound business practices across its operations that reflect the expectations of shareholders and the assessment of the views of wider stakeholders, the Board oversees a systematic analysis of risks and determination of the Group's risk appetite. This analysis then informs our strategic priorities and investments on the one hand, and our policies and procedures to address risk mitigation, on the other. We consider a range of risk areas including environment, people, health and safety, political and regulatory, strategic, operational, financial, and climate change.

The risk appetite is the level of risk that the Group is prepared to tolerate, and which might arise in the day-to-day conduct of our business and in seeking to realise our strategic objectives. The Board determines the risk appetite of the Group in order to ensure that the potential impact of current and emerging risks is considered and appropriately managed so as to increase the likelihood that the Group's business objectives can be achieved, whilst minimising the threat of adverse impact to the financial and operational performance and prospects of the Group.

Risk appetite therefore informs the expected behaviours from our Board, senior executives, all colleagues, contractors and business partners, and helps in determining the investment likely to be required to support risk management activities and an appropriate risk-balanced approach to carrying out our plans. Risk appetite can vary depending on the nature of the risk, the expected impact of that risk and anticipated benefits to the Group and our stakeholders in proceeding with an intended objective.

In setting the Group's risk appetite, it is noted that parts of the Group's operations reflect high inherent risk while also providing the opportunity for potential commercial gain, for example, trading in commodities. The Group has developed a commercial strategy that is designed to manage the Group's exposure to volatility in commodity prices whilst also reflecting the Group's risk appetite in this area. Commodity market hedging is a useful tool which provides a level of protection from what can be a volatile market. The Group's commercial strategy utilises hedging as a tool to sufficiently limit the Group's exposure to the uncertainty of future adverse swings in commodity prices, whilst also acknowledging that this same market volatility provides the opportunity for financial returns.

The risk management approach manages, rather than eliminates, the risk of failure to achieve strategic and business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss. For example, the business has become increasingly aware of marked changes in weather patterns which alongside other climate-related risks have become more impactful on our business. As a result, in recent years, we have developed a climate-related risk. Through our analysis of climate-related risks, we seek to identify material challenges to the business which might arise and consider how we should respond to both physical and transitional climate risks. In so doing we seek to better understand the emerging and potential future threats against the resilience of our business and operations to reduce the adverse impact which might arise for our people, our assets, our ability to operate day to day and our financial performance.

A supporting mitigation strategy has been established including investment to offset risks. For example, at our US plants tornado shelters have been installed at sites where that particular weather risk can occur. These shelters provide a refuge to our employees, contractors and site visitors in the event a storm occurs. This is one example of an appropriate and proportionate response to a recognised risk. Nonetheless, the weather-related events experienced in Canada with flooding impacting fibre rail movements and wildfires close to plants highlight broader challenges, not all of which can be wholly mitigated. Such extreme weather as was experienced in 2021 can disrupt our site operations, impact supply chains and damage infrastructure (for example make rail routes impassable) and demonstrate how the business operations and financial performance are subject to the risk of environmental factors occurring that are beyond the immediate control of the Group.

Risks are assessed on a gross and a net basis after mitigating controls have been considered and a target risk level reflective of the Group's risk appetite is applied to each risk.

Risk management governance

The risk management governance structure includes the Executive Committee (from which owners are identified to be accountable for each principal risk) and our risk management committees whose shared responsibilities include:

- Regularly assessing and understanding the risks that may impact our business to ensure any identified new or current risks are managed within the defined risk appetite and limits of the business.
- Ensuring that changes in the internal business and external macro environment that affect the principal risks are kept under review and responded to appropriately.
- Driving completion of the actions required to improve risk mitigations and reduce risk exposures to target levels.
- Driving an appropriate risk management culture that promotes and creates balanced risk-taking behaviour and clear accountability.
- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group.

In line with good governance, the risk management committees at the business unit and group function level undertake regular reviews of operational and financial risks, receiving reports from business units and risk owners reflecting their specialist areas and technical knowledge. The Executive Committee also undertake deep-dive reviews of all the principal risks through the course of the year and receive reports from the risk management committees and principal risk owners. In addition, the Audit Committee review the suitability and effectiveness of risk management processes and controls on behalf of the Board and receive updates from management at each meeting. The Board also receives updates on the risk management framework.

Identification
Senior leadership and risk owners are collectively responsible for the identification of risks with the potential to threaten the achievement of strategic objectives.

Assessment
Senior leadership and risk owners assess likelihood and possible impact of risks occurring using Group's risk scoring methodology.

Also ensure appropriate mitigating controls are in place to manage identified risks to an acceptable level aligned to risk appetite and target risk.

Governance
Risk management committees undertake regular risk reviews and receive reports from business units and risk owners reflecting their specialist areas and technical knowledge.

Monitoring and Reporting
The Executive Committee undertake deep-dive reviews of each principal risk annually and receive reports from the risk management committees and principal risk owners.

The Audit Committee and Board review the suitability and effectiveness of risk management processes and controls. They also review and challenge the proposed disclosures prepared by management on risks to consider whether they are fair, balanced and understandable, providing adequate links to the Group's strategy (and the ability to realise objectives over the near and longer term) and reflect adequately wider macro and emerging threats.

As part of these reviews, risk owners, Risk Management Committees, the Executive Committee and the Board, also undertake holistic reviews to identify emerging risks. These qualitative assessments seek to identify new potential risks resulting from macro-economic factors or other external sources. This involves judgement and is undertaken through gathering the views of key stakeholders including the Executive Committee and Board members who bring to bear significant levels of technical knowledge, industry experience and economic awareness. As an example of such reviews, the Group is monitoring potential geopolitical emerging risks to understand their significance and likelihood.

Internal control

The Group has a well-defined system of internal control, supported by policies and procedures, documented levels of authority which support decision-making, and accountability for management across the Group.

The Board has adopted a schedule of matters which are required to be brought to it for a decision, below which authority is delegated through the Executive Committee to a combination of sub-committees and management enabling them to make decisions on behalf of the Group and its businesses on a day-to-day basis. The internal control system is designed to ensure that the Directors and executives maintain effective oversight and direction for all material strategic, operational, financial and organisational issues.

Under authority delegated by the Board, the Audit Committee approves and implements a programme of internal audits covering various aspects of the Group's activities for the subsequent financial year. Refer to page 118 for further information. The programme evolves based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks, the core financial control framework and observations arising from management's review, discussion and challenge by the Audit Committee, as well as feedback from the annual audit and reviews performed by external auditors (both financial and non-financial). This includes reviewing responses to findings from the work of the Internal Auditor and support of other specialist advisers. The programme is reviewed at each Audit Committee meeting and refreshed to reflect developments within the Group as well as changes in wider practices, informed by the experience of colleagues and external auditors.

Since their appointment in 2020, the majority of internal audits have been performed by KPMG who provide a fully outsourced internal audit function to the Group, reporting to the CFO. The findings and recommendations from each internal audit are documented in a report for internal distribution and action. A full copy of each report is distributed to the Executive Committee and the Audit Committee. Each report includes the status of management responses to the findings and recommendations, and details of the actions that management propose to take. Each meeting of the Executive Committee considers the status in responding to and closing recommended actions.

In addition, the Audit Committee receives an internal audit and quarterly internal controls update report at each meeting during the year. Internal audits are augmented by additional internal control checks which are performed by operational management and which through a system of self-reporting are considered by senior management and the Audit Committee.

Where weaknesses are identified as part of the normal course of governance of the system of internal control, these are investigated, and the impact on the business is identified with remediation actions established as part of a process of continuous improvement. Again, this is reported to the Audit Committee. None of the findings reported during 2021 were individually or collectively material to the financial performance, results, operations, or controls of the business.

Based on the assessments undertaken by each of the Executive Committee and the Audit Committee during 2021 and considered at the meeting of the Board held in finalising the Annual Report and Accounts, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control. For further information on the work of the Audit Committee see page 118.

Overall risk assessment

The Board continued to perform a robust assessment of principal and emerging risks including the ongoing management of these risks during the changing landscape of the Covid-19 pandemic. During 2021 additional consideration was given to the acquisition and integration risks associated with the Pinnacle transaction and more recently at its meeting in January 2022, the Board reviewed wider macro-economic (such as inflationary pressures) and geopolitical potential risks (for example the situation in Ukraine). The Board also reviewed more business-focussed risks and commented on the disclosures, for example suggesting improvement to the quality of disclosure on the context of principal risks such as "political and regulatory" and "biomass acceptability" to help the understanding of the reader. In so doing the Board sought changes to the draft disclosures to take into account their assessment. These factors have been referred to within the nine principal risk categories disclosed on pages 80 to 91. The Board determined that these and other new and emerging risks have not materially affected the categorisation of the Group's principal risks. As such, the nine principal risk categories remain unchanged from 2020.

Risk impact of Covid-19

The ongoing Covid-19 pandemic continues to have an impact on many aspects of society and the global economy, and the duration and depth of the impacts remain uncertain. The Group prioritises the health, safety and wellbeing of colleagues and contractors, with additional measures in place to safeguard all those attending the Group's operational sites. This includes ensuring

all our colleagues remain cognisant of changing guidelines issued by the UK Government, Canadian and US authorities. The actions implemented have enabled the Group to meet its obligations as part of the UK's critical national infrastructure, generating power and supporting the UK's energy market and our business customers while protecting our colleagues.

The Group has an incident crisis management process enabling timely response to events when they occur which comprises strategic (led by the Executive Committee), in addition to tactical and operational level teams (led by management). In response to Covid-19 these teams developed and implemented additional policies and procedures around health, safety, IT systems, remote working practices, wellbeing, communications and engagement. The Group also updated its working practices to be able to continue to accurately track its financial and non-financial business performance. The arrival of vaccines and the availability of rapid testing have been positive developments, but the emergence of new variants means that it is necessary to remain vigilant and continue to implement mitigations at our offices and sites, responding to changes in government guidance.

The market environment for our Customers business, which saw the most significant adverse impact from Covid-19 during 2020, improved during 2021 as the level of business failure amongst small and medium-size enterprises reduced and bad debt risk experienced by our Customers business began to recover to more normal levels. The pandemic did not have a material impact on the financial performance and results of the Group or the assessment of the principal risks for the Group during 2021. Any further change in UK Government policy, macro-economic policy and the behaviours of people and markets resulting from the pandemic will continue to be monitored as part of business-as-usual risk management activities of the Group.

Acquisition of Pinnacle Renewable Energy Inc.

As part of the Group's strategy to build a long-term future for sustainable biomass, Drax completed the acquisition of Pinnacle on 13 April 2021. An Integration Management Office (IMO) was established pre-completion to plan activities required from pre-close through to post-acquisition for each functional area. The IMO set out the guiding principles of integration, including culture, approach to ways of working, and the roles and responsibilities within the enlarged Group. It led project management tracking of the key risks, issues, and actions that were updated and discussed on regular calls with colleagues across relevant aspects of the Group's activities.

An integration governance structure was implemented including a Steering Committee attended by senior representatives from each functional area as well as the CEO and CFO. The Committee challenged how the integration risks were being mitigated whether through intermediate activities or implementing permanent processes. They also assessed requests for additional resources or investment to deliver the programme of work. The vast majority of integration activities have now been successfully completed with activities transitioned from the IMO to business-as-usual by the end of September, and subsequently the Steering Committee was disbanded.

The integration risks associated with the acquisition of Pinnacle were communicated in the Shareholder Circular which can be accessed on the investor relations page of the Group's website. The Group's exposure to environment, health and safety (HSE) risks has expanded due to the increase in the number of operational sites. To appraise this risk, a review of Pinnacle operations was conducted which included visits to all their sites in the US and Canada, supported by external consultants. Action plans were established at site level to address immediate priorities some of which have now been completed, for example the replacement of old transformers at the Aliceville site. A HSE project was implemented which remains in progress, with additional capital investment approved for 2022. As was explained in the Shareholder Circular, the Group's status as UK critical national infrastructure may mean Pinnacle becomes the subject of new and potentially more sophisticated cyber security threats. To mitigate these threats, the controls that regulators would expect us to have in place are continually evolving. Additional measures have been adopted to strengthen Pinnacle networks and business resilience around areas including network infrastructure, with the business being migrated to the Drax environment for support and monitoring. It is recognised that Pinnacle operates in jurisdictions within which Drax has minimal experience, such as Japan, and as a result our understanding of operating in these territories is limited. Working with new customers, suppliers and joint venture partners, in unfamiliar jurisdictions only heightens the importance of strong working relationships to ensure that they collaborate with us on meeting the standards to which we aspire, whilst we also learn more about conducting business in these territories. To ensure Pinnacle meets Drax's high standards of business ethics compliance, interim due diligence processes for both customers and suppliers was implemented, ahead of instigating enduring processes in 2022.

Principal risk categories

The Group has identified nine principal risk categories which have the potential to have a material adverse impact the operational and financial performance of the Group. These and other key risks are considered within an established programme by which management, executives and the Board consider how risk and our ability to respond should evolve.

The Board, as part of its year end processes, considered reports from management reviewing the principal risks and uncertainties and how these had evolved during the second half of 2021. This review took account of the ongoing Covid-19 pandemic, and the acquisition of Pinnacle and did not result in the identification of any additional Principal Risks.

Set out below are the nine principal risks reflecting that assessment:

- Safety, health and wellbeing, and environment
- Political and regulatory
- Biomass acceptability
- Trading and commodity
- People
- Strategic
- Climate change
- Plant operations
- Information systems and security

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

Safety, health and wellbeing, and environment =

Context

The safety, health and wellbeing of our employees and contractors remains a priority for the Group and maintaining high operational and procedural safety standards is also an important contributor to the continued success of the business across all aspects of our activities. Observing proper standards in the way we work not only creates and maintains a safe workplace to which the Board and management are fully committed, it also enables a more operationally effective business. Our vision is reflected in "One Safe Drax"– ensuring zero harm to our colleagues and the public, and recognising our people are at the heart of everything we do. We believe that safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance.

Safety and environmental management are foundational to our operational philosophy and we continue to work across the Group to identify, implement and then maintain high standards supported by a positive culture to safe working. Such culture also seeks to engender a combination of personal accountability whilst fostering a desire for continuous improvement where all colleagues can contribute to working together effectively. Compliance with environmental legislation and our environmental permits and consents is also a very important part of our day-to-day operations. We also consider and seek to respond proactively to emerging legislation and regulatory changes in both safety and environmental aspects. These are important for our people and our reputation and we recognise the value attributed to effective measures and good practices by our stakeholders.

Risk and impact

- Our operations involve a range of potential hazards which could affect colleagues, contractors, others attending our sites and the wider environment, that arise from the materials and equipment we use and the processes we perform. This includes heavy plant and machinery across our sites in the US, Canada and UK in the manufacture, storage and transportation of biomass pellets and the generation of electricity through operation of a combination of methods including biomass and hydro (pumped water) stations. Please refer to Page 89 for more information.
- The biomass that we use to generate electricity and the particulates that can occur if the biomass pellets degrade are highly combustible. So the production, preparation, storage and transportation (whether within our sites, ports or in transit between sites) requires careful management to minimise the risk of fire or explosion.
- In the generation of electricity, supplied to the National Grid at up to 400kV, we operate various plant at high temperatures and pressures, as well as managing significant volumes of water (e.g. 57.6 billion gallons at Cruachan) used by our nine hydro plants in Scotland. These are inherent attributes of our operations which contribute to HSE risk.
- As part of the acquisition of Pinnacle, the Group has added 10 operating plants which produce and store biomass, increasing the potential exposure to environment and health and safety risks, though actions are being taken to mitigate them. Additionally, some of these sites we operate in Canada are in remote locations, which are subject to the impact of extreme weather, such as heavy snowfall in winter, which can affect accessibility. As a result, the timely delivery of emergency response to incidents could be hindered.
- We continue to operate in a world with Covid-19 and the risks posed to the business remain, as new variants of the virus become prevalent in our local communities. However, the Covid-19 vaccination roll out and a good level of uptake in the communities in which we operate has reduced the likelihood of serious impact on our operations. Government guidelines also change rapidly to respond to developments in the pandemic, and can require significant changes in working practices.

Key mitigations

- Continued investment in safety equipment, environmental mitigation and plant equipment and its regular maintenance.
- Regular reporting to the Board on HSE matters as part of the CEO report. Outlining trends, incidents and initiatives to enable the Board to understand culture, behaviours and status of key HSE matters.
- Maintaining robust management systems which are subject to periodic review and refresh as appropriate.
- Effective governance framework including an executive level Group HSE Committee chaired by the CEO to review and challenge the management of safety, health and wellbeing and environment across the Group.
- A site-by-site assessment of HSE conditions as well as a desktop review of existing management systems and compliance for all Pinnacle sites has been undertaken. C$27 million of committed spend has been allocated to the improvement and continued mitigation of HSE risks at Pinnacle sites.

Safety, health and wellbeing, and environment continued

- Where the remote location of Pinnacle sites may impede an emergency response to incidents, plants have partnered with local fire brigade stations in addition to performing weekly emergency drills.
- Development of plans for 2021/22 that align all business units to the key focus areas to drive improvement in our HSE performance, whilst building upon the 2019 "One Safe Drax" vision.
- Tracking and reporting events and near misses, prompt investigations and timely implementation of corrective actions to support attention and continuous improvement.
- Training colleagues to an appropriate level of competence enabling them to contribute to the effective management of environment, health, and safety risks.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites.
- Timely communication to our colleagues on how arrangements in response to Covid-19 are evolving, with due regard for their wellbeing through a combination of training and increasing awareness of tools to support personal resilience.

Changes in factors impacting risk in 2021

- Occupational safety performance for the year with TRIR and LTIR showing continued performance in line with industry benchmarks.
- The acquisition of Pinnacle has increased the number of operational sites by 10. A structured programme is underway to introduce a new integrated management system across our Pellet Operations. A review of projects to improve operational safety and occupational safety has enabled us to prioritise capital investments.
- Notification of legal action from the Health and Safety Executive in relation to wood dust at Drax Power Station has been received. Please refer to Page 57 for further information.
- The Group established a HSE Centre of Excellence with participation from the leads for HSE across our businesses, and each month we review serious incidents, collaborate on developing corporate requirements and share best practice.
- Introduction of a Group-wide reporting definitions standard to define our HSE incidents, and the commencement of roll out of a new HSEQ ("Health, Safety, Environment and Quality") IT System.

Political and regulatory

Context

Through the course of 2021, UK Government and wider political support strengthened on both the use of biomass and delivery of BECCS. These are two key elements of Drax's strategy (see Strategic risk on page 86), and includes recognition of the role BECCS is able to play in delivering negative emissions in the UK and abroad (for more information see page 49). However, the Group remains conscious of the ongoing discussion associated with biomass (refer to Biomass Acceptability principal risk on page 83) and the need for further commitment and financial support from UK Government and other critical partners in order to deliver the decarbonisation of UK power generation and enable the Group to realise its strategy. Looking ahead, we recognise that wider macro-economic challenges which are affecting many countries emerging from the Covid-19 pandemic may impact the scale of financial support and pace of such commitments, which could adversely impact realisation of the Group's objectives.

The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become more exacting. In addition, the level of regulatory and compliance requirements applicable to businesses continues to increase with an emphasis on transparency and accountability. As we work to bring new supply chains online, either through acquisition or new sourcing, the level of regulation applicable to Drax (in the UK, US, Canada and global sourcing/target markets) is likely to increase and has the potential to pose new challenges. Furthermore, we remain alert to the changing geopolitical landscape which could impact the global energy sector.

Risk and impact

- Public and political pressure to respond to the threat to our planet from climate change has intensified. During 2021, positive steps were made towards enabling Carbon Capture investment frameworks and affirming the case for biomass. However, whilst support has grown for BECCS and sustainable alternative fuels as part of the Government's decarbonisation strategies, the political agenda has also been impacted globally by the ongoing effects of Covid-19 on social and economic policy. For example in the UK, Government fiscal priorities have changed resulting in delays to the introduction of new legislation to deliver investment frameworks that support reducing carbon emissions and addressing climate change. Such delays could adversely impact decisions on the required scale of investment needed to support BECCS, which may result in material delays in the ability to realise Drax's strategy. The longer-term potential impact from Covid-19, including reduced fiscal revenues for many national governments, inflationary pressure as the availability of key resources fail to keep pace with demand, coupled with addressing the social impact of the pandemic, may impact economic growth in the other countries in which Drax operates. This means investment in new technologies to address climate change may be delayed, adversely impacting Drax's ability to maintain progress towards delivering BECCS.
- Changes to government policy at a regional and national level in the countries in which we operate may increase the cost to operate our businesses, reduce operational efficiency and affect our ability to realise our strategy. Examples include reform to the UK legal framework following Brexit; data privacy regulation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including impacts on liquidity; and consumer service and affordability requirements.
- The global regulatory environment is evolving, which may result in additional costs and complexity. Post-Brexit reviews of regulation could lead to a divergence

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

Political and regulatory continued

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between UK and EU regulation and reporting requirements, further increasing our cost to operate. Our involvement in new international supply chains and pellet markets, for example Japan, introduces additional challenges in terms of compliance, regulatory change and misalignment of standards between markets. Such complexity may increase the risk of non-compliance, regulatory investigation and enforcement action against Drax, potentially resulting in penalties/sanctions that impact anticipated returns and/or our licence to operate.

- Biomass represented 92% of our generation in 2021 (75% in 2020) and, longer term, we are aiming to increase our biomass self-supply to 8Mt p.a.. Should the UK continue to follow the EU's requirements on biomass acceptability and sustainability, then our inability to influence EU policy following Brexit could be a disadvantage.
- Following the UK's transition to the EU/UK Free Trade Agreement, the UK Government has established its own Emissions Trading Scheme (ETS). The aim is to link the new UK ETS to the EU ETS to ensure continued alignment on decarbonisation via a market-based pricing regime. This will take time to introduce and progress has been slow to date. The price of carbon under the UK ETS remains misaligned with the EU ETS and there are signs of weakened market liquidity in the UK's new, smaller market.

Key mitigations

- Engaging with politicians and government officials, to listen to and inform understanding and perception of Drax's business, including our commitments on sustainability and the creation of socio-economic value (including jobs, training and investment in communities), plus the critical role that Drax's strategy will play in supporting the UK's ambition to achieve net zero by 2050.
- Engaging with regulators and industry bodies to understand their priorities, influence the strategic direction and ensure compliance. Working with wider stakeholders and industry associations to maintain Drax as a thought leader on priority UK and global policy and regulatory issues.
- Exploring opportunities for the delivery of investment in BECCS in other territories, such as the US and the wider Asia region. Working with leaders and key stakeholders in those regions, to identify areas of common purpose and share ideas for creating jobs, investment and new growth opportunities. An International Affairs team is being developed at Drax to broaden our stakeholder interaction and engagement in regions where we source and supply biomass.
- Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance, covering: risk assessment; policy and guidance development; robust process; awareness raising; training; audit and continual improvement.
- Ensuring our practices and processes meet regulatory compliance and are "fit for the future", for example updating our approach to supplier assurance in new markets.
- Investment in knowledge and experience that is recruited into the Group to best support the business across our global operations.

Changes in factors impacting risk in 2021

- COP26 and the role of the UK Government in acting as Chair positively impacted global commitments to delivering on decarbonisation and recognition of the role that BECCS will play in this.
- CCS is also actively being assessed by other nations in response to delivering their obligations for reducing global climate risks. Progress in 2022, including fiscal policy commitments remain important to maintaining momentum.
- The financial impact on government funding caused by Covid-19 over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere, which could affect the Drax business model and financial prospects.
- Power price volatility means that there has been a substantial increase in energy supplier failures, which results in greater cost mutualisation (recovery) across the industry.
- In the UK, Ofgem is reviewing the fundamental design of the power market, in particular system balancing costs as a result of the change in demand-levels during the Covid-19 pandemic (which offers an insight to future UK supply/demand balance) and general efficiency and effectiveness of the market with an increasing proportion of zero marginal cost generation.
- The smart meter roll out continues, with fixed annual targets being introduced from 2022. An increase in regulatory "Requests For Information" is expected during 2022 to support the regulator's data gathering and monitoring processes.
- Entering into new markets, through acquisition or organic growth increases compliance risk due to additional compliance risks, e.g. Asian pellet supply markets, and additional regulatory change risk, e.g. old growth forests in Canada or sustainability standards in Japan.

Biomass acceptability

Context

Biomass is a significant element of Drax's existing business and is important in the realisation of longer-term strategic objectives enabling both the Group and the UK to realise their net zero targets. During 2021, Drax sourced and shipped to the UK 7.8M tonnes of biomass for use in the operational activity of generating electricity at Drax Power Station. Furthermore, through the acquisition of Pinnacle, the Group has become party to commercial contracts to supply biomass to third parties. The supply of biomass to third parties represented 3.2% of revenue during 2021.

Whilst the legal framework and scientific principles for the use of biomass have been thoroughly assessed (see page 17), and the UK Government's interim Biomass Policy Statement (issued November 2021) demonstrated continued support, the case for the use of biomass remains subject to scrutiny from various stakeholders. We continue to engage with organisations and governments in order to explain the benefits of sustainably and responsibly sourced biomass. Please refer to page 17 for further information.

The market for biomass as a commodity remains relatively immature. The regulatory framework associated with the sourcing of biomass materials is also under development, including in some regions in which we currently conduct business and others where we may in the future develop our business. It is possible that new regulatory frameworks may not align with our strategy and investment case. This could result in reduced support for certain types of biomass as a renewable energy source, increased costs of doing business or introduction of barriers to entry which may adversely impact our growth plans and financial returns versus expectations.

Risk and Impact

- Some parties including certain environmental non-governmental organisations (eNGOs) continue to iterate against the use of biomass. These groups seek to influence and challenge policy and law makers against the use of biomass, which may result in reduced political, business, public and financial support for the benefits of biomass.
- Biomass remains immature as a commodity market. This includes some of the regions from which biomass is sourced, processed and shipped. In order to achieve our strategic goals, we require ready access to an increasingly diverse supply of biomass. The business therefore continues to explore new markets from which to source viable alternative fuels.
- As we seek to expand our global sourcing strategy, we recognise we will be operating in markets with differing degrees of regulatory maturity. This brings additional complexity and challenges in managing the different requirements. Future changes in policy or regulation could increase costs, make it difficult to source or sell biomass, or reduce current support for the benefits of biomass.
- New legislation, regulation or guidance could mean voluntary certification schemes are no longer recognised as demonstrating compliance with our regulatory requirements. For example, the potential impact of the second EU Renewable Energy Directive (REDII) on the automatic recognition of standards regimes, such as the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC). This could impact the operation of the Sustainable Biomass Program (SBP) certification scheme, which would add complexity and cost to the way in which we demonstrate the sustainability credentials of our biomass to regulatory authorities.
- The EU has been an influential authority on the regulatory framework for biomass. Being outside the EU reduces the UK's influence on future EU biomass policy and potentially other territories which develop their own biomass acceptability regimes.
- Accepted views on the economic utilisation of forestry (for example in British Columbia) may change as traditional sectors such as lumber and paper mills evolve. Such changes may in the future impact the availability of by-product and otherwise waste materials which are used in the manufacture of biomass leading to a shortage in the market.
- The sectors in which Drax is already operating are evolving and we expect the number of market participants assessing and adopting alternative fuels in power generation to increase. The actions of new entrants in our sector (e.g. their approach to sustainable sourcing and evidencing thereof) may negatively impact government, regulatory, customer or eNGO views of the biomass industry as a whole. This could lead to increased scrutiny and/or regulatory intervention.

Key mitigations

- Working with agencies in all regions in which we operate to establish appropriate sustainability standards and robust oversight of compliance, which is applicable to all market participants. For more information on our views and approach, see page 45.
- Developing and maintaining strong relationships with policymakers in the UK, EU, Canada and Japan via targeted engagement across institutions.
- Working across regions with academics, think tanks, trade bodies and specialist consultants to improve understanding amongst our key stakeholders and analysis of the benefits of biomass.
- Respecting the views of eNGOs and seeking regular engagement to discuss issues of contention and solutions where possible. For example, in 2021 our CEO met with Greenpeace, E3G and UK Wildlife Trust to discuss concerns and ways in which we might collaborate and share views that can constructively influence change. We have taken insights from these engagements and created a new sustainability strategy which explicitly includes nature, climate and people-positive actions, led by our new Director of Sustainability.
- The Independent Advisory Board (IAB) of scientists and leaders in the field of sustainability provided impartial advice and guidance throughout 2021, which will continue in 2022.

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

Biomass acceptability continued

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- Forging closer relationships with suppliers on sustainability through the supplier relationship programme.
- Continued engagement within our supply chain to ensure compliance with prevailing regulations and standards, plus identifying opportunities to enhance actions which support sustainable and responsible sourcing strategies and biodiversity, which is integral to our philosophy.
- Maintaining strong processes to ensure compliance with regulation in addition to evidencing of our forest biomass sourcing commitments. Increased transparency of our sustainability credentials (for more information see page 64 of the annual report).
- Continued engagement with voluntary certification, notably Sustainable Biomass Program (SBP) at Board and technical levels.
- Supporting SBP to achieve REDII approval, affording divergent policies in UK and EU to be met through the same scheme.

Changes in factors impacting risk in 2021

- BEIS has announced it will update its Bioenergy Strategy, due for publication in Q3 2022. In November 2021, the UK Government published its interim Biomass Policy Statement (the pre-cursor to the Bioenergy Strategy), which was highly supportive of biomass and BECCS, but posed reforms to the sustainability criteria and signalled the introduction of a hierarchy of end use of biomass.
- The UK Government discussions on policy changes have continued, reflecting the experience of Covid-19. Indications are that as part of the wider economic recovery plans, UK Government will bring forward and have a greater focus on its sustainability policies.
- The EU published its "Fit for 55" package in July 2021 which proposed reforms to key legislative packages including RED, EU ETS and LULUCF. The proposals in the updated Renewable Energy Directive (REDIII) package are particularly challenging for the biomass sector and pose some divergence to UK policy. Therefore, we are engaging and suggesting alternative approaches to the proposals.
- The Japanese Ministry of Economy,
- Trade and Industry (METI) is in the process of setting biomass sustainability criteria. Their starting point is replicating the EU's model, but increasing pressure from eNGOS and other producers could add restrictions that limit imports from Canada.
- Forest policy changes in British Columbia, Canada could adversely impact the Group. It aims to cut back tenure from major holders, double tenure allocation to First Nations and includes the harvesting deferral of 196,000 hectares of old growth in nine separate areas.

Trading and commodity

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Context

Drax produces biomass and power with renewable certificates (Renewable Obligation Certificates – ROCs, and Renewable Energy Guarantees of Origin – REGO's) and captures the market value of these commodities in the wholesale traded markets and through selling directly to end-users in various markets across the world.

Sales of electricity, pellets, gas and Renewable Obligation Certificates (ROCs) represented £4,845 million (2020: £3,818 million) of our revenue from continuing operations in 2021.

A considerable proportion of Drax's revenue is exposed to spot and forward commodity prices and foreign exchange rates, and the liquidity of these markets. We must also manage our Carbon costs in the UK and European Emission Trading Schemes.

To manage the volatility and liquidity risks of these markets requires careful risk management and through our portfolio strategy, we optimise our assets within our risk management framework to maximise value. We deploy forward hedging strategies to manage the volatility of commodity prices and have multiple routes to market to manage the liquidity constraints of the market. Non-commodity costs are also volatile and inherently difficult to hedge. Through our commodity hedging and our foreign exchange strategies we mitigate and manage these risks to give high visibility and certainty over our earnings.

Risk and impact

- Power prices can be subject to significant volatility, driven by a combination of generation capacity, demand from consumers and business as well as the ability of the Grid to respond. Short-term elevated power prices in excess of hedged rates may result in losses, should an unplanned outage on one or more units at Drax Power Station occur. This is because the Group could be required to buy back at "spot" (or the then prevailing market) rates – which could be a price materially different to the rate Drax had originally traded in creating the hedged position.
- Energy and commodity markets are subject to significant regulation. Failure to comply with regulatory requirements could lead to material adverse effects such as reputational damage and financial implications.
- Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow in our Generation business.
- Delivery of commercial value from the flexibility of our portfolio and leveraging a complex supply chain with uncertain running regimes, requires effective execution of our trading strategy and opportunities to trade being available in a liquid market.
- The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce.
- The value of ROCs generated may be lower than forecast, for example if the recycle value outturns are below our projections due to higher than anticipated renewable generation (wind and solar) satisfying actual demand.
- In 2021, instances of UK energy supplier failures continued to lead to supplier mutualisation processes being invoked by Ofgem (whereby the costs and commitments of the failed businesses are enforceably shared among other suppliers), notably for ROCs, resulting in increased costs. Whilst the level assumed is capped, the Group is exposed to the impact of disruption to its prevailing business model, additional costs and the assumption of additional contracts on terms which the Group might not consider appropriate or favourable.
- Inability to fulfil Drax's pellet sales contracts may result in an exposure to the difference between the contracted and market price of the pellets. This could result in loss of margin and profits for the Group, in particular when wider supply of pellets is restricted.

Trading and commodity continued

- Increased freight prices may impact Drax's revenue through having to pay the current market freight price on any uncovered freight.
- Across the international markets we trade in, we assume foreign exchange risk.
- Insufficient supply of fibre may lead to reduced production.

Key mitigations

- Consolidated Group-wide biomass position to ensure oversight of complete portfolio, allowing production to meet our forecast sales/generation requirements, noting the requirement to satisfy Drax's third party biomass supply obligations.
- Drax's diversified portfolio of biomass production assets provides flexibility and allows us to manage production performance risks.
- We aim to maintain substantial levels of forward power hedges (sales) for 2022 to 2024 and the Contract for Difference for the one biomass generation unit reduces our exposure to volatility.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation and to add additional value.
- Under our hedging strategy, our exposure to having to buy back power at higher prices in the short term following an unplanned outage of a Drax unit is mitigated, as we do not hedge all of our peak period power generation in the forward market.
- Additional value is provided through the increased flexibility and optimisation capabilities of Drax's hydro assets.
- Our UK portfolio of Industrial and Commercial electricity customers provides liquidity for forward power and renewable certificate sales. We maintain high hedge levels of customer sales through our power trading capability.
- The value of the Group's ROC production is hedged by selling ROCs to the Customers supply business and other counterparties. This is supplemented by assessing opportunities to mitigate Recycle Fund volatility and analysing possible outturns.
- We hedge fluctuations in ROC generation from wind farms through weather derivatives.
- The acquisition in 2021 of Pinnacle provides increased flexibility for our portfolio, allowing us to manage a more diversified source of pellets, more efficient hedging of freight positions across the Pacific and Atlantic freight markets and management of sales and supply of pellets into third party end-users (e.g. in Asia) in addition to our own demand in the UK.
- We actively engage with wood pellet suppliers to ensure delivery schedules are met and any shortfalls addressed to limit the impact on power generation.
- Drax has long-term fibre contracts to supply our pellet production sites.
- Significant hedging of forward foreign exchange (see pages 248 and 256).

Changes in factors impacting risk in 2021

- Drax's acquisition of Pinnacle, one of the world's leading biomass producers, significantly increased the amount of biomass Drax can produce. This acquisition increased both self-supply for the Group's own pellet requirements and established the Group's portfolio of contracted sales to third parties.
- Power prices in 2021 were highly volatile and reached unprecedented levels, creating increased market uncertainty as well as constraints on supply. The uncertainty had an impact on market access to the longer-term power market (year-ahead and beyond) for a number of participants. This had a limited impact on Drax due to our high hedge levels and alternative means to hedge our position.
- In Q1 2021, Drax sold its combined cycle gas turbine power stations. This allowed Drax to focus on its core renewable generation strategy.
- In May 2021, the UK introduced the UK Emissions Trading Scheme (ETS) following Brexit. This removed the UK's requirement to participate in the EU ETS.
- Sterling exchange rates against the US Dollar, Canadian Dollar and Euro have seen more stability, however volatility remains linked to the global economic recovery associated with Covid-19 and looking forward, may be impacted by geopolitical uncertainties such as in Ukraine..

People

Context

2021 saw Covid-19 measures remaining in place, and employees in all industries looking for more flexible ways of working. People have more choice about the industry, company and location in which they want to work. In some areas this has led to a scarcity of skills in the market (e.g. IT and data analysts). Employees want more from their employment, including blended working approaches, having more of a voice in the organisation, and being able to define their ways of working individually. Alongside these market pressures, Drax also prioritises keeping our colleagues safe as paramount in our planning and decision making.

All of the above create the imperative that we future proof and retain our workforce. It has become even more important that we build an environment that is diverse in all ways, and we also support our colleagues in achieving their professional and personal goals in a blended way that has not been experienced before.

As the Group's business model evolves, we require a broader range of skill sets. With people responding to change and complexity, as well as contributing to the delivery of important objectives. There's a growing need that the workforce capability allows for colleagues to both deliver on day-to-day operational demands, and are also able to plan and execute milestones associated with longer-term objectives and organisational goals.

As the Group expands its presence, we also need people with these talents in new territories. Retaining those with knowledge and experience in newly established locations such as Canada, as well as building new capability in other emerging operating territories. This comes with challenges, such as colleague retention, involvement and empowerment which we aim to mitigate.

Risk and Impact

- Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced and engaged colleagues at all levels of the organisation reflecting the diversity in the wider societies in which we operate.
- Our changing ways of working afford colleagues more choice about where and how they work. This means we have to be competitive on all fronts with our employer value proposition to colleagues. Colleagues are increasingly looking for employment that offers them opportunities where work and personal goals are blended. The failure to adequately respond to this could result in the loss of existing colleagues or not attracting people with the skills the Group needs.

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

People continued

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- The changing nature and growth plans of the organisation will require different skills and capabilities to those needed in the past. Whilst still ensuring that we retain the core skills that will always be required to run our business. Furthermore, the demand for people with particular experience and capabilities in sustainability, climate-related initiatives and renewable energy has increased in many developed countries.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. This requires different levels of focus and attention and can have an impact on employee engagement and retention with subsequent impacts on labour turnover and productivity.
- Through the mid to latter part of 2021, the wider labour market has become increasingly competitive and market forces have contributed to increased employment costs including across base pay and other rewards. In addition specialist talent across a range of disciplines is scarce. This is leading to us needing to find points of differentiation to stand out in the market and attract and retain great candidates and colleagues. The risk of scarcity of specific skills may also impact the Group's supply chain, for example availability of train drivers.
- With our international expansion and growth in new territories comes an increased need for cultural, legal and diversity understanding and awareness. Our people strategy is highly focused on addressing these risks.

Key mitigations

- Building an "early careers" talent pool through entry level (graduate and apprenticeship) roles, to support our future talent needs.
- Introduction of an Inclusive Leadership Programme, aligning to the organisation strategy to educate and inspire colleagues to make Drax a more inclusive place to work.
- Conducting colleague surveys to monitor engagement levels and alignment of people with Group values (you can read more about this on page 60).
- Continued investment in employees' personal and career development to enhance business performance and provide the Group with a relevant pipeline of talent in critical roles.
- Enhancing the "Career Development" intranet site to provide colleagues with a one stop shop for all their career development needs.
- Building on our listening strategy to ensure regular colleague communications, and exchange of information between colleagues and the Board through our "Ask Will" opportunities, MyVoice Survey action planning and our MyVoice Forums (more information on the work in these areas in 2021 can be found on pages 37 and 60).
- A diversity and inclusion strategy that is responsive to stakeholder views, provides equality of opportunity and aligns to our organisational vision and goals (you can read more about our work in this area on pages 60 and 96).
- Introduction of hybrid working guidance and ways of working. This provides managers and colleagues with greater certainty about how they will be working going forward.
- Using programmatic advertising for our recruitment, supporting our levelling up and diversity agendas, and identifying talents from broader communities.
- Introduction of a wide range of family friendly policies to support the retention and attraction of talent.

Changes in factors impacting risk in 2021

- Increasing competitiveness in the market, pay and benefits inflation which has been most acute in particular disciplines (e.g. IT), has increased the risk of attrition, and the loss of talent from the organisation.
- An ongoing focus on attraction, engagement and retention strategies, has helped to lessen the impact that leavers may otherwise have had.
- Increased focus on achieving a diverse workforce, and supporting our "levelling-up" agenda, is supporting our talent pipeline growth and retention.
- The increasing need for the workforce to be seen as and treated as individuals, is focusing our key People Plan activities around the sense of "individual" in the organisation.
- Whilst we have retained a focus on keeping our people safe in the face of Covid-19, the core of this has transitioned through 2021 towards more enduring working practices, policies and support mechanisms. This continues to support our workforce to have more freedom and flexibility, and to take more responsibility for how they work and what they achieve, making us an attractive place to work.

Strategic

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Context

The Group's purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. In 2021 the Group published three revised strategic aims that underpin its purpose and ambition (see business model on page 6). Through this strategy the Group aims to deliver long-term growth opportunities, including investment to support growth in sustainable biomass pellet production, bioenergy carbon capture and storage (BECCS) technologies and long-term electricity storage.

Together we believe these investments have the potential to build a position of earnings growth beyond 2027, when the subsidies we receive for generating electricity from biomass are curtailed. The Group aims to deliver higher quality, diversified and sustainable earnings, in combination with delivering climate positive, nature positive and people positive outcomes. Strategic risks are defined as those that could materially undermine any of the Group's strategic aims, and thereby prevent the Group from delivering its stated outcomes and fulfilling its purpose.

Risk and impact

Sustainable biomass pellets

- The realisation of this strategic aim depends on the broad adoption of sustainable biomass as an accepted renewable fuel in the energy transition. A leading position requires a sustainable economic cost, volume of self-supply and a clarity on sustainability of sourcing. The primary objectives are to continue to reduce the cost of biomass generation to £50 per MWh by 2027, and increase biomass self-supply to 8Mt p.a.

Strategic continued

- There is a risk to the availability of feasible expansion opportunities, the successful identification and delivery of initiatives to reduce the current cost of biomass, and the availability of sustainable biomass in the regions required.
- There is the risk that biomass does not have the stakeholder support (e.g. government, investors – economic and social) leading to a lower rate of adoption than our strategic plan assumes.

Negative emissions

- In order to limit global warming to a 1.5°C temperature change, it is widely acknowledged that removal of CO_2 from the atmosphere will be required. To be a leader in the emerging negative emissions market Drax is working to deliver the BECCS project at Drax Power Station and deliver new growth internationally. This requires the development of an economically attractive business model within its target jurisdictions.
- There is a risk that an economic business model for BECCS cannot be developed, including the risk that regulatory and voluntary frameworks do not develop in such a way as to enable Drax to fully participate in these markets.
- There is a risk that Drax cannot build the right asset portfolio at scale.

UK dispatchable, renewable power

- The UK power market continues to evolve and, with it, the requirements for technologies to balance the system and keep it stable, together with the market mechanisms to support and procure them. To be a leading provider of UK dispatchable, renewable power requires the right portfolio of assets and associated business models. These must operate within a system that values the dispatchable characteristics of those assets at the right economic levels.
- There is a risk that the market does not appropriately value the flexibility that renewable dispatchable assets provide or procures those services through mechanisms that we are not able to participate in effectively.
- There is a risk that unexpected changes to electricity supply and demand could reduce both demand and volatility, and therefore limit the market for dispatchable renewable assets.

Capital

- Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required while maintaining a corporate credit rating in the BB range.
- There is a risk that investor sentiment moves away from Drax and its strategic direction. This could happen if for example sustainable biomass becomes unattractive, or Drax allocates capital poorly and underperforms.

Key mitigations

Sustainable biomass pellets

- Adoption of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Significant capital ready to deploy, with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge our science-based approach and assumptions on sustainable biomass and publish their recommendations.

Negative emissions

- Drax progresses its BECCS project at Drax Power Station as a priority, and engages closely with stakeholders to find the right commercial model to support it.
- Drax is developing new build BECCS projects in other jurisdictions, which supports the development of a scalable negative emissions business and reduces the reliance on a single market and commercial model.

UK dispatchable, renewable power

- We maintain and invest in our market modelling capability and embed it into planning, option assessment and test/cross check against third party scenarios.
- We continually evaluate the current and projected performance of our own portfolio of assets, and the value gained from changing the composition of the asset portfolio in line with the Group's view of the market outlook.

Capital

- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group has further evolved its approach to capital allocation. This provides rigour and consistency in assessing the technical, financial, and strategic justification and performance of new projects across the Group, in particular for investments in new and emerging technologies.

Changes in factors impacting risk in 2021

- The acquisition of Pinnacle brings greater capacity in pellet production and a strong third party sales capability into the Group. Raising the self-supply target from 5Mt p.a. to 8Mt p.a. balances the net risk.
- The delivery of Group strategic aims is less exposed to new markets for system stability and more focused on the delivery of dispatchable renewable assets such as the expansion at Cruachan, Scotland.
- Experience from the Group's public and private debt issuances indicated that there is strong demand for investment in sustainable biomass, and with a view that the strategic risk for access to capital is not currently high.
- 2021 has seen increasing signs of commitment to negative emissions from the UK Government through their net zero strategy (with a consultation on preferred business models to incentivise early investment in green house gas removals in 2022). This reduces the risk to our negative emissions strategy. Likewise other governments' increasing acceptance of biomass decreases the risk to our pellet strategy.

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

Climate change

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Context

The resilience of our business strategy and operations to both physical and transitional climate risks is important to the functioning and long-term value creation of the Group. We have identified climate risks in two main categories – physical and transitional. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rise. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low carbon economy.

Whilst the physical impact of climate change may pose challenges to our operations (which even where we seek to mitigate could still have material impact on our business), the transitional impacts include a number of aspects – (such as the impetus to reduce carbon emissions and the introduction of better carbon neutral ways to generate power), which directly align with the Group's strategy (see page 6). In the analysis of the risk we therefore are assessing differing factors:

Those where the Group need to mitigate against adverse events which could impact our ability to conduct our business.

Those where, through effective and constructive engagement with third parties, Drax is able to contribute to positive steps that business and countries can take to reduce the risk of climate change, such as BECCS and CCS which align with our strategy and can deliver a combination of economic, financial and sustainability benefits.

We provide further detail on these developments in our TCFD disclosure on page 64.

Risk and impact

- Physical risks to our Pellet Production operations and supply chain in the US and Canada include increased frequency, variability and severity of extreme weather events, as experienced in the second half of 2021, such as hurricanes, flooding and wildfires with potential to cause damage to assets and impact on supply of raw material and finished goods.
- Physical risks to our Generation operations and supply chain include increased frequency and severity of extreme weather events, such as heavy rainfall, flooding and high winds, with potential to cause damage to assets and impact on transport infrastructure that could restrict or reduce access to sites.
- Policy risks related to the transition to a low carbon economy include Government changes in climate policy that may impact generation as well as Drax's global pellet supply business. For example, changes to biomass supply chain GHG emissions limits. Future revisions to GHG accounting methodologies have the potential to impact biomass generation and supply.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected, impacting delivery of the Group's carbon negative ambition and business strategy.
- Reputation and market risks related to the transition to a low carbon economy include increased activity by NGOs, the potential for reduced investor and customer confidence, delays to our strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities) and challenges with employee recruitment and retention.

Key mitigations

- Robust business strategy informed by net zero 2050 scenario. Three strategic objectives aligned to global renewable energy and decarbonisation agendas. (see page 6).
- Carbon negative ambition and Climate Policy, underpinning a business strategy consistent with UK Government and international climate change policy.
- Acquisition of Pinnacle, enhancing geographic diversity of pellet plant asset locations across US and Canada.
- Sourcing from a wide geographical range of third party pellet mills; and continued evaluation of alternative fuels, using different feedstock types and considering wider sourcing geographies.
- Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.
- Engagement with stakeholders, including with NGOs on biomass, and close liaison with UK Government on future policies.
- Innovation team tracking technology advances and progressing development of new technologies, such as BECCS.

Changes in factors impacting risk in 2021

- A Carbon Oversight Group was established and acts as Risk Management Committee for review and challenge of the climate change principal risk. Provides oversight and engagement on ongoing carbon developments, including review of external GHG corporate accounting and reporting guidance, frameworks, and standards.
- Canadian wildfires experienced in 2021, temporarily disrupting rail logistics routes for several of our pellet plants.
- Public awareness of the impacts of climate change has increased, highlighting the global imperative to invest in technology which will support the achievement of carbon targets.
- The economic recovery plans resulting from Covid-19 indicate the UK Government will use the opportunity to bring forward policy and actions that help drive corporate focus on sustainability and climate change action.
- Submission of Drax scope 1, 2 and 3 carbon targets to the Science Based Targets initiative for external validation.
- Development of a new asset-level physical risk assessment template to assess potential local physical risks and track appropriate mitigations per site for our Generation and Pellet Production assets.
- Completion of an initial, third party climate change scenario analysis out to 2030, considering both physical and transitional scenarios.

Plant operations

Context

The reliability and safe operation of our facilities in the UK and the continent of North America is critical to our ability to create value for the Group.

The Plant Operational risk profile can be affected by several risk factors but of particular importance to the Group currently are, the safe management of ageing assets, building in inherent reliability and safety by design for new installations, management of change, and operating equipment within intended design limits and parameters.

The Group's production facilities are highly complex and require careful management and identification, control, and mitigation of risk to operate safely throughout the full life-cycle (design through to decommissioning).

Some of the Group's facilities and equipment are classed as ageing assets. For example, Drax Power Station, located at Selby in Yorkshire, was built approximately fifty years ago and some of our hydro plants, located in Scotland, nearly one hundred years ago.

By contrast other facilities and equipment including some of the sites in our expanding Pellets business based on the North American continent, have only recently been commissioned.

In the UK, the generating assets are required to run flexibly and promptly to respond to the demands of the electricity system. For Drax Power Station specifically, the plant was originally constructed to generate electricity from coal. Subsequently four of the six generating units have been converted to use biomass. Two of the four units are still operated using coal but only run on demand from National Grid to fulfil existing capacity market obligations which expire in September 2022, whereupon they will be decommissioned.

These factors mean that the risk profile of our operations is varied, and continually changing, and must be analysed and mitigated.

Risk and impact

- As plant ages, the operational reliability and integrity is expected to reduce. Single or multi point failures of plant across our portfolio, and incidents arising from the handling and combustion of biomass, could result in forced or unforeseen outages in our generation or pellet production plants.
- We rely on external contractors to provide some of the capabilities and experience which support the Group's maintenance programmes. Were such resources to be unavailable or a supplier to be unable or unwilling to devote the required resources to support us, our operational integrity may be adversely affected which could impact plant optimisation and even the safe and reliable operation of plant. This could result in interruption to our operations whether planned or unplanned and cause us to incur financial loss and reputational damage.
- Successful generation using biomass requires stringent quality to be maintained throughout our pellet production plants and the supply chain, which continues to evolve and mature. Our suppliers may experience operational or financial difficulties which impair their ability to sustain continued compliance or result in inadequate standards being met. Poor quality in the pellets used in the generating units could result in additional costs (as we may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation.
- When installing new facilities and equipment across the Group if inadequately conceived, there is a risk that they may not be compliant with legislation and best practices which could lead to future plant operational risks, delays in commissioning, plant not being capable of operating or the need for corrective actions which could mean the costs to operate increase.
- Acquisition of Pinnacle added 10 operating pellet plants and two port facilities to the Group which will require expenditure to address actions identified from Hazard and Operability studies (HAZOP) performed.
- As a result of the acquisition of Pinnacle, the Group now supplies pellets to third parties under long-term contracts. In the event of unforeseen disruption to our operations (for example the result of an incident at our plants or severe adverse weather) our ability to deliver pellets may be compromised. In the event such disruption does not qualify as force majeure, we may be in breach of obligations under contract which could result in financial loss in addition to adverse impact on the Group's reputation.
- Brexit and Covid-19 have resulted in longer lead times for the delivery of materials, goods, and services. This can impact the day-to-day operation of plants or cause delay in the development and commissioning of new assets or the refurbishment of existing assets. In addition, we may experience increased costs associated with the supply of raw materials, installation of plant or equipment and operation of our sites.
- Covid-19 has required increased safety measures and protocols at our operating sites in order to ensure that our employees and contractors remain safe whilst working on our sites.

Key mitigations

- A comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, supported by an experienced engineering team.
- Ensuring plant is designed to recognised standards and ensures legislative compliance to prevent and control major hazards.
- Maintaining robust management systems, designed to identify and mitigate risk and manage process safety across operating assets.
- Maintaining the stringent safety procedures in place for handling biomass and dust management.
- Full testing of all biomass supplies prior to acceptance, and the use of contractual rights to reject out of specification cargoes.

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

Plant operations continued

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- Sampling and analysis through the supply chain, to increase understanding of causes of fuel quality issues.
- Maintaining insurance in place to cover losses from plant failure where possible.
- Employing advanced condition monitoring systems to alert any possible plant failures before they occur where practicable.
- Sustaining good working relationships with external contractors and building partnerships which support the operation of our sites as they evolve.
- Providing the required training and development to equip our employees in conjunction with recruiting people with the right skills and experience.
- Process safety work on hazard and operability studies has been carried out on a rolling programme at Pinnacle sites. Actions from these studies are being prioritised and implemented to address issues.
- A team from the UK visited US and Canadian pellet plants to agree methodology and apply consistent practices across all operational assets.
- We have measures in place to manage the on-going risks of Covid-19 such as thermal screening, mass testing, social distancing, and enhanced hygiene protocols as appropriate and as required by prevailing local government guidance.

Changes in factors impacting risk in 2021

- Completion of a significant planned maintenance outage on Unit 1 has reduced risk at Drax Power Station with the installation of a new high-pressure turbine unit, replacement hot reheat pipework, extensive boiler tubing replacement and a generator stator major overhaul.
- Major refurbishment of our Glenlochar barrage in the Galloway Hydro Scheme has further reduced the risk of operational failure.
- Acquisition of the Pinnacle business added 10 operating pellet plants and two port facilities to the Group. The resulting increase in operating risk is being mitigated through planned capital investment and alignment of practices with the rest of the Group.
- The limited operation of coal running assets in addition to the sale of the Group's CCGT assets in 2021 has reduced the levels of exposure of the Group to generation plant operating risk.
- Continued progress on the development of the Demopolis pellet plant in the US which will increase capacity and should enhance reliability of operating assets given it will be newly commissioned.
- Implementation of a new Health, Safety, Environment & Quality platform which will enable us to gather information identifying signs that our process safety barriers are weakened or inadequate. This will further enable operational improvements and risk reduction.

Information systems and security

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Context

Our Cyber systems and the integrity of the data we use are essential to supporting the delivery of the day-to-day business operations of the Group and making sure our financial, legal, regulatory and compliance obligations are met. As part of the UK's critical national infrastructure, the Group has significant obligations in the continuity of supply of power and is reliant on the security and integrity of its systems which support the generation and supply of power to the National Grid. Our systems must adapt to evolving external threats to security in the form of cyber attacks, in addition to delivering on business requirements in order to contribute to the delivery of our strategy. The systems need to be fit for purpose and the confidentiality, availability and integrity of the systems and data needs to be ensured.

Well maintained business systems which support the development of our Group, enable our people to effectively perform their roles, support our customers and effectively monitor and track business performance that can be used by our managers, executive and Board are critical to our day-to-day operations (for example in the logistics for the supply of pellets from our sites in the US to our Power Station in the UK or commodity trading undertaken by our trading teams) and future success. We continue to invest in appropriate systems which are capable of meeting current and projected future requirements that captures, analyses and reports robust data.

Risk and impact

- Security compromise of our systems and data (including personal data) is an evolving and constant threat. Hacking or cyber attacks could significantly disrupt the conduct of our operations, restricting access to our own systems, or result in the extraction and withholding for ransom, or destruction or compromise of data which may cause operational and financial impact and regulatory non-compliance. Geopolitical tensions have in the past been known to result in increased cyber related incidents. Accordingly, such tensions, for example, the situation in Ukraine, could increase the Group's risk exposure to attacks on our systems and those of suppliers on whom we rely for integrity of service.
- Loss or interruption of power supply could disrupt our systems and affect the operations at our sites, for example the ability to generate electricity at our sites in the UK, or to conduct time critical trading in commodities. Such events could have a material adverse impact on our financial performance, result in breach of our obligations to third parties, adverse reputational impact and in material penalties.
- As we grow we require new systems that support our business. The planning and delivery of such systems is complex. Significant delays in the implementation of IT programmes could affect our ability to deliver our strategy and result in additional unforeseen costs.
- We work with a range of third parties who support us in our IT systems and cyber security. In the event these businesses were themselves to suffer systems failure, cyber attack or financial difficulties, this could in turn impact our business, operations and performance.
- Expansion of environments (technically and geographically) with the acquisition of Pinnacle increases the Group's exposure to additional security threats and vulnerabilities, which could cause operational and financial impact and regulatory non-compliance.
- Aspects of the Group's operations rely on sophisticated automated systems to support the day-to-day business activities, which include oversight of the safe and effective operation of our

Information systems and security continued

generation assets, commodity trading undertaken by our trading teams and data associated with the supply of power to retail customers. If any one or more of these systems were to be interrupted or fail, we may experience significant disruption in our ability to maintain these activities resulting in operational challenges and potential financial loss.
- There is a risk from relying on so-called technology giants and on the availability and resilience of their systems, the failure of which could lead to significant disruption to our own businesses.
- Ageing systems can be affected by reduced performance or the support provided by third parties to their maintenance can be downgraded. This in turn may impact the availability of IT systems, data and facilities affecting our operations adversely due, for example, to uncorrected weaknesses.

Key mitigations

- Maintaining effective and up-to-date cyber security measures, including a protect, detect, respond and recover strategy, which evolves to address known and emerging threats.
- The Group Security Director briefs the Board and the Audit Committee on all security matters, including information security.
- We remain alert to the changing landscape of such threats, monitoring geopolitical activism including state sponsored cyber events, particularly as Drax is designated as UK critical national infrastructure. Security training is mandated for new joiners, and refresher training is required on an annual basis for all employees. We also run regular phishing tests and deliver on the spot and specific education on this threat.
- Periodic external assessment of the integrity and adequacy of our IT and cyber security arrangements which are assessed and challenged by subject matter experts, as well as the Board and Audit Committee.
- Scenario events in which we assess our capability to respond to potential circumstances or threats.
- Maintaining and refreshing business continuity, disaster recovery and crisis management plans.
- As UK critical national infrastructure we receive additional support and services from the UK Government if a security or continuity incident were to be encountered.
- Drax is externally audited by the designated Competent Authority (Ofgem) to ensure compliance with the Security of Network and Information Security Directive.
- We have robust onboarding policy and processes to ensure major service providers and vendors are appropriately risk assessed and reviewed periodically.
- Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The IT Board, a sub-committee of the Executive Committee, provides oversight and governance.
- Pinnacle integration running under a controlled programme of work.
- Following a deep-dive security risk assessment across Operational Technology and Information Technology in Pinnacle environments, IT and Security continue to integrate and implement Group security standards and controls to mitigate identified high risks as per the Group Information Risk Register.

Changes in factors impacting risk in 2021

- Ongoing programme of improvement to security, monitoring of key IT controls and IT and security risk management.
- The enforcement of key compliance regulations such as the NIS Regulation, which is ongoing, has increased the financial cost to the business and increased workload.
- Further work embedding the IT operating model has been undertaken to better support strategic objectives of the Group and improve efficiency of technology processes.
- A formalised and approved new Target Architecture which enables us to deliver the IT systems and capabilities flexibly and in support of business needs.
- The Group's status as UK critical national infrastructure may mean Pinnacle becomes the subject of new and potentially more sophisticated cyber threats. Additional measures are being implemented through IT and Security integration and compliance workstreams to strengthen Pinnacle networks and business robustness around Disaster Recovery and Network Infrastructure.
- There continued to be a manageable impact on the delivery timelines of several planned IT activities due to Covid-19, driven by the availability of resources and other priorities to ensure the business remained operational. The adoption of new technology and changes in existing IT systems was necessary to facilitate the safe home working for many of the Group's colleagues and has helped to improve the IT environment.

The strategic report is set out on pages 1 to 91 and was approved by the Board of Directors on 23 February 2022.

Will Gardiner
CEO

We are a can-do kind of place

We have a diverse, inclusive culture where the continual exchange of ideas and perspectives leads to great things. The conversion of our coal-fired power plant to biomass and the development of our Electric Vehicles service was due to the ingenuity of our people.

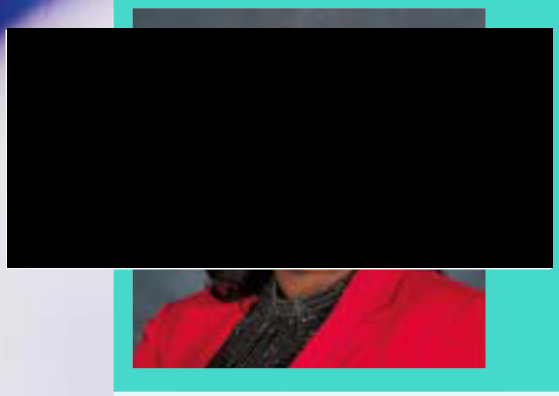
"The culture at Drax allows me to feel seen, heard and believe that my point of view matters."

The impact inclusion has on my workday is profound, and the culture at Drax allows me to feel seen, heard and believe that my point of view matters. It's impressive to know that your company places so many resources and so much emphasis into deeply understanding inclusion within their organization.

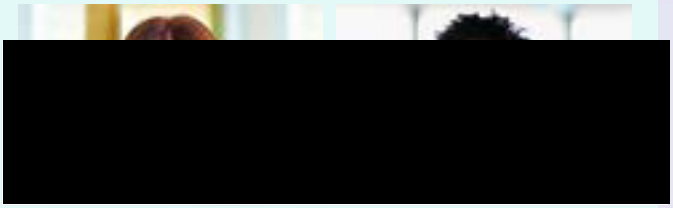
I've participated in a workshop for the business to learn more about my perspective on inclusion within Drax – my comments, along with those from other leaders, helped develop an inclusion training program for the leadership team.

Our MyVoice Forums give our Board and Executive Committee an opportunity to hear about our inclusion experiences "on the ground" and, alongside the MyVoice Surveys, provide an opportunity to capture colleague thoughts, ideas and experiences of inclusion to help develop plans to make Drax a more inclusive place to work.

Melisha Gardner
Regional Reliability Engineer, Aliceville, Alabama



Meet our two new Non-Executive Directors



Kim Keating **Erika Peterman**

Read more about Kim and Erika on **page 99**

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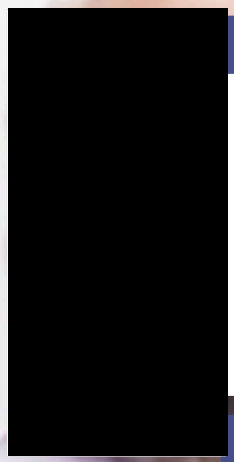


Corporate Governance Report

"As Drax continues to evolve, our purpose, culture and strong governance framework supports the Board in continuing to deliver for our stakeholders."

Phillip Cox CBE
Chair

Find out more on **pages 94 to 111**

Nomination Committee Report

"Having the right mix of skills, experience and diversity on the Board and throughout the business is key to achieving our purpose."

Phillip Cox CBE
Chair Nomination Committee

Find out more on **pages 112 to 117**

Audit Committee Report

"We are focused on ensuring fair and balanced performance reporting is in place, underpinned by a robust system of internal control."

Vanessa Simms
Chair Audit Committee

Find out more on **pages 118 to 129**

Remuneration Committee Report

"We ensure that remuneration outcomes for Executive Directors, and senior management, appropriately reflect the performance of the Group."

Nicola Hodson
Chair Remuneration Committee

Find out more on **pages 130 to 159**

Corporate Governance Report: Letter from the Chair

As Drax continues to evolve, our purpose, culture, and a strong governance framework supports the Board in continuing to deliver for our stakeholders

Philip Cox CBE, Chair

Our purpose, strategic objectives and values

Purpose and ambition

Our purpose is to enable a zero carbon, lower cost energy future.

Our ambition is to become carbon negative by 2030. Being carbon negative means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.

Our Strategic Objectives

To be a global leader in sustainable biomass pellets

Pellet sales, self-supply, cost reduction, fibre sourcing and technology

To be a global leader in negative emissions

Development of projects in UK and internationally

Carbon negative by 2030

To be a leader in UK dispatchable, renewable power

Flexible renewable power – biomass, hydro, pumped storage

Renewable power and energy services to strategic customers

All underpinned by safety, sustainability and cost reduction

Our Values

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

I am pleased to present our Corporate Governance Report.

2021 was a transformational year for the Group – a transformation driven and guided by our purpose (to enable a zero carbon, lower cost energy future) and our ambition (to be a carbon negative company by 2030). In addition to taking significant steps in delivering our strategy, we strengthened and diversified our Board and senior management. We have given further impetus to key aspects central to our organisational culture, such as diversity and inclusion. And we have remained attentive to sound controls and governance in such operational areas as health, safety and sustainability and those material to the financial management of the business. In these, and other aspects explained in this section of the report, the Board and its Committees have been important contributors. We believe the business has made good progress but there remain areas requiring further attention, which we will explore in more detail throughout this report.

In April 2021, we completed the acquisition of Pinnacle Renewable Energy, Inc. (Pinnacle). This was approved by shareholders at a general meeting held on 31 March 2021. Throughout the period in which management were conducting due diligence and assessing the transaction, the Board received detailed reports and met to evaluate the findings. In addition to the financial and business case, the Directors considered detailed assessments of the stakeholders likely to be affected by the transaction, which include colleagues and local communities. The Directors considered evidenced-based sustainability due diligence, not only of the sites to be acquired but also the end-to-end supply chain. This supported a better understanding of the new territories in which the enlarged Group would be conducting business. The Board contributed to the assessment, challenging findings, offering views on additional areas to be considered and providing guidance on how to reflect on such matters as the rationale for the transaction provided to shareholders as part of the Class 1 Circular, and the explanation of business and transaction-related risks.

The Board also discussed with management the plans to support the integration of the Pinnacle business, new colleagues, customers and suppliers into the enlarged Group. The implementation of those plans reflects the contribution of colleagues from across the Group in the UK, the US and Canada. The progress made is a testament to the dedication of so many of our colleagues, working collaboratively in the realisation of those plans. You can read more about the Board's considerations on page 106.

The acquisition of Pinnacle is one aspect of the Group's transition away from the use of fossil fuels to the generation of power using sustainable fuels. In support of this, the Group continues to reshape the portfolio. Consistent with that strategy, in January 2021 we completed the sale of the Group's CCGT assets to VPI Generation Limited.

Execution of such programmes requires considerable attention from management and colleagues, while also maintaining focus on day-to-day operations, effective internal controls and robust governance. During the year, the Board and its Committees continued to receive reports and evaluate performance associated with the business and progress in areas for potential growth, such as BECCS. The Board also assessed proposals for how the Group operates as we emerge from the Covid-19 pandemic.

Engaging with our stakeholders

The BECCS programme is a good example of the way in which Drax is at the forefront of innovation. We are assessing alternative ways to deliver our own negative emissions ambition and the net zero ambitions of the UK Government, while also meeting the UK 's electricity needs.

As our plans to use BECCS at Drax Power Station have become more central to our strategy, so too has the breadth of our engagement with external stakeholders on this topic. Over the past year our engagement around BECCS has focused on three core themes: negative emissions, the "levelling up" agenda and supporting UK climate leadership abroad. You can read more about this on page 39.

BECCS requires significant investment – not solely from Drax but also from other critical stakeholders, including the UK Government and other commercial partners. As we explain on page 16, we made important progress during 2021, but need to do more if we are to realise the opportunities from BECCS. Engagement with stakeholders, to help us understand their views and assess their impacts, is therefore a fundamental aspect of that work. During 2021 the Board received regular reports from our CEO, Will Gardiner, on engagement with stakeholders, including the UK Government, political parties, commercial partners and NGO's. We also held more in-depth discussions, for example in June, when the Board received a detailed paper from the External Affairs team on stakeholder engagement. The structure of their paper allowed the Board to assess and challenge the quality of engagement in satisfying s.172 of the Companies Act. This meant we not only considered the issues pertinent to the Group – we also had a better understanding of what matters most to our stakeholders and how management are seeking to address them. The Board is intent on continuing to further develop actions in this area.

During times of change and significant transition, engagement with stakeholders is an important part of decision-making. It also supports an understanding, through an appropriate feedback process, of how those decisions have affected or may affect others.

Our colleagues are key to delivering our business success and, following the acquisition of Pinnacle, we recognised that the process of integrating our teams would be an important phase for the enlarged Group. The integration plans were therefore one aspect of welcoming new colleagues, enabling them to contribute to and inform key actions. Teams from across Canada, the US and the UK created detailed integration programmes supporting co-ordination of the enlarged Groups' activities after completion.

Led by a member of the Executive Committee, and reporting regularly to the Executive Committee, the integration teams identified and tracked key deliverables. These were reported to the Board and included assurance around internal controls and governance. Examples included incorporating Pinnacle into our existing financial reporting processes; ensuring the financial control environment of the enlarged Group remained robust; incorporating risks into the existing risk governance structure of the Group, centred around our Principal Risks; conducting a detailed assessment of health, safety and environmental (HSE) policies and processes; implementing a risk-based approach to HSE improvement in support of our OneSafeDrax vision; and ensuring the resilience of IT systems and controls and cyber security.

We appointed PwC to support the work of the integration teams, and also facilitated a "lessons learned" review once the integration activities had migrated into business as usual. In addition, we included our new Pinnacle colleagues in our annual engagement survey. The Board considered the results from the survey at the Board meeting in December, finding that 70% of all colleagues responded, providing feedback on areas such as company engagement, inclusion and safety. The results for Pinnacle mirrored the themes and the engagement score for Drax overall. The findings from the survey showed a need for improvement in supporting retention, career opportunities and development, and enhanced communication about our commitment to environmental and social responsibility. These findings are informing both near-term actions and our planning for 2022. More information on the engagement survey can be found on page 60.

In December we hosted a Capital Markets Day, engaging directly with investors on various aspects of the business. We explained our ambition, the role of bioenergy, our sustainability and responsible sourcing framework, BECCS, and the importance of flexible generation. The event was an important opportunity for us to speak directly with, and hear directly from, current and prospective investors, both through a formal question and answer session, and then an opportunity to discuss informally after the event. This helped attendees, both in person and online, to better understand our business and for us to learn more about their viewpoints.

During the year Will Gardiner and I continued to meet quarterly with the chairs of the MyVoice workforce engagement forums. These allow us to hear directly from colleagues and speak openly in a safe forum, holding discussions on key issues which are important for our colleagues. Will and I then feedback to the whole Board to ensure all Directors gain an appreciation of employee interests and concerns and, in turn, offer guidance and reflections on how we might respond, taking account of the views of colleagues. You can read about this on page 109.

Recognising the greater global reach of the Group, we have taken steps during the year to enhance our intranet. A key medium for keeping our dispersed workforce connected and engaged, it provides resources for colleagues and information on the activities and initiatives of the enlarged Group. These included diversity and inclusion events, with both internal and external contributors, the promotion of health and wellbeing, and in-depth articles on COP26. We also provided online access for our colleagues to the Sustainable Innovation Forum.

In April 2021 we held our first Annual General Meeting (AGM) using resources that allowed shareholders to attend online. At the AGM in 2022 the Board will review again how the online facility can optimise shareholder engagement and participation.

Diversity and Inclusion

In last year's annual report, we outlined our actions regarding diversity and inclusion, including the development of our Diversity & Inclusion Policy, and recognised there was more work to do. The Policy's purpose is to build an inclusive culture, enabling equitable opportunities for all, and covers recruitment, people development, reward, monitoring, and support. We have made progress during 2021, reflecting the actions taken following the acquisition of Pinnacle, our engagement with stakeholders (including some of our shareholders) and the restructuring of the organisation implemented in the autumn.

By 31 December 2021, we had improved our female representation to 44% at Board level (2020: 28.6%), to 40% at the Executive Committee (2020: 22.2%), and our overall female representation across the Group was 30% (2020: 31.5%) (see table on page 107). The Board also met the Parker Review recommendation of having at least one director from an ethnic minority background (see more on this in the Nomination Committee Report on page 113).

In considering the proposed acquisition of Pinnacle, the Board assessed how best to evolve its balance of capabilities and knowledge. We agreed to undertake a search for at least one additional Non-Executive Director and wrote to our largest institutional shareholders, explaining the steps we were taking. Several of our shareholders provided feedback on our plans, which were considered by the Board.

In undertaking the search, one important aspect, alongside the proven competence and background of the candidates, was the desire to further enhance the Board's diversity. The search concluded with the appointments in October of Erika Peterman and Kim Keating as Non-Executive Directors, and I am delighted they have joined the Board.

Erika and Kim bring significant experience in complex businesses and proven capabilities in delivering growth within challenging sectors (respectively, industrial chemicals and major infrastructure projects in the energy sector). In addition, with Erika a US citizen based in New Jersey and Kim a Canadian citizen based in Newfoundland, the Board has further enhanced its first-hand knowledge of operating in geographies in which Drax has a growing presence, together with a better appreciation of local and national stakeholder considerations.

In other sections of this annual report, we explain the additional measures we have taken in 2021 to support positive change for diversity and inclusion. These include leadership development, celebratory events, introducing family friendly policies, and evolving recruitment strategies to attract candidates from under-represented groups. The Board considered and fully supported all these steps. For example, we are working to support action across the wider organisation through an inclusive leadership programme for over 200 senior leaders. Led by a behavioural change consultancy – Steps Drama – this programme focuses on supporting and challenging leaders to create an inclusive working environment. This is part of enabling change through engagement with our wider workforce.

Culture and governance

We are proud of our culture at Drax, and it is this culture that drives our values. A fundamental element is acting with integrity – what we call, "doing the right thing". The Board and I seek to set a clear and positive tone from the top to promote these values, which in turn drive standards and practices in all aspects of our work. In the final quarter of 2021, we commenced a review of the enlarged Group's values, looking at those associated with both Drax and Pinnacle. We asked colleagues for their views and feedback to ensure the values represent the enlarged Group and support the strategy. The Board will oversee the process during 2022 and will review any proposals for evolution.

The Board and management promote openness and a collaborative culture across the Group. Our people are valued irrespective of their background, are enabled to realise their potential, and contribute to delivering our purpose and strategy. We have always placed, and will continue to place, particular emphasis on the safety and wellbeing of our people. The Group's response to Covid-19 highlighted the deep-rooted sense of caring at all levels, as the business sought to support colleagues and wider stakeholders. From discussions in the Boardroom, to conversations with the MyVoice forums, to local initiatives, we have worked to understand and respond to the challenges and needs of others. You can read more about our culture and values on pages 59 to 63.

During 2021, as restrictions on face-to-face meetings eased, the Board was able to resume the practice of meeting at different locations. This facilitates face-to-face engagement with local colleagues and management and helps Board members to better understand the characteristics of each part of our business.

In June, the Board visited Drax Power Station, which provided the Directors an opportunity to meet operational colleagues and visit key projects. We visited the BECCS trial and spoke with the project team, and saw the control room, turbine halls and biomass storage facilities. We gained valuable insight into the operations and culture of the business, including a presentation from members of the "Fit for the Future" programme. In December I was very pleased to be able to visit our sites in Scotland, along with David Nussbaum (Senior Independent Director), Penny Small (Group Generation Director and Executive Committee member) and Brett Gladden (Group Company Secretary) where we spent valuable time with our Scottish colleagues face-to-face. We are planning further site visits for 2022.

Drax has experienced many changes during the year and the Board recognises the significant work by all colleagues as enablers to that change. We very much appreciate their positive contribution in delivering both our day-to-day operations and progressing our strategy. It is only by working together, informed by our values and our continuing commitment to realising our ambitions responsibly, that we can deliver our strategy.

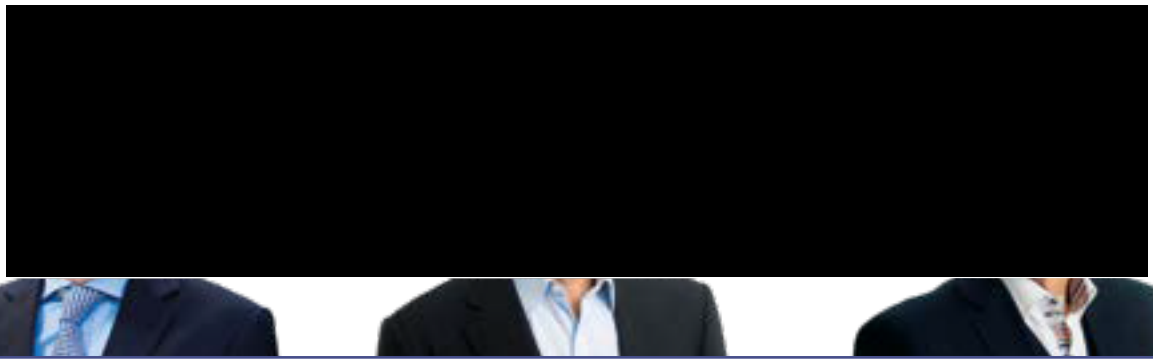
Philip Cox CBE
Chair

Corporate Governance Report: Board of Directors

The Board shapes our purpose, strategy, culture and values, to generate long-term sustainable value and provide strong stewardship of the Group.

Key to Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee



Philip Cox CBE
Chair

N R

Contribution and Experience

Philip is an experienced leader of large businesses, having held both executive and non-executive roles, including in the energy sector. As Chair, Philip cultivates a culture of openness, transparency and honesty in which constructive debate and challenge occurs and in which all directors contribute fully, His responsibilities at Drax include Board composition and succession, Board governance and stakeholder engagement.

He was previously CEO of International Power plc, having formerly been CFO. Prior to this he held a senior operational position at Invensys plc and was CFO at Siebe plc. As a non-executive he was previously Chair of Kier Group plc, the Senior Independent Director at Wm Morrison Supermarkets plc, Chair of Global Power Generation and a member of the boards of Talen Energy Corporation, PPL, Meggitt plc and Wincanton plc. Philip is a Fellow of the Institute of Chartered Accountants and has an MA from Cambridge University.

Appointment to the Board:
January 2015

Appointment as Chair:
April 2015.

Will Gardiner
CEO

Contribution and Experience

Will has a strong track record of building and leading well-managed companies and creating value. He has been a key architect of our purpose and strategy, driving the sustainability agenda from the top, including Drax's response to the climate change crisis, and ensuring that we are delivering for our stakeholders.

He provides leadership of the executive team and takes responsibility for important external relationships and stakeholder management. Will is also a non-executive board member of the Sustainable Biomass Program.

Will joined Drax in 2015 as CFO and was appointed as CEO in January 2018. He has a wealth of experience in finance and technology, having held CFO and divisional Finance Director roles at a number of major companies, including CSR plc (acquired by Qualcomm, Inc in 2015) and Sky. He has dual US-UK citizenship and has lived and worked in the UK since 1998.

Appointment to the Board:
November 2015

Andy Skelton
CFO

Contribution and Experience

Andy has over 20 years of strong finance and commercial skills, alongside substantial experience in the technology sector. Since joining Drax three years ago he has driven efficiency and operational excellence across the Group to provide a sound framework from which we can deliver our purpose and strategy.

Andy is responsible for financial control and planning, corporate finance, investor relations, tax, IT, procurement, strategy, mergers and acquisitions, risk, and internal audit. He also represents Drax as a board member of the Northern Powerhouse Partnership.

Andy was previously CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. Andy has a BA in accounting and finance and qualified as a chartered accountant in 1994.

Appointment to the Board:
January 2019

Key to Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee

David Nussbaum

Senior Independent Non-Executive Director

A N

Contribution and Experience

David's extensive experience in international development and environmental matters, in addition to his prior experience as Finance Director of a UK listed industrial company, is of significant value to Drax and contributes to the Board's discussions and understanding in the perspectives of and engagement undertaken with stakeholders.

David holds a portfolio of other Board appointments, including at the Value Reporting Foundation and the International Budget Partnership, is a member of the Ethical Investment Advisory Group of the Church of England, and is Chair of the Advisory Council of Transparency International UK.

His executive career has included being the Chief Executive of The Elders, of WWF-UK and of Transparency International. He was previously Finance Director and Deputy CEO of Oxfam, and Finance Director of Field Group plc. In a non-executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Vice-Chair of Shared Interest Society, Chair of Traidcraft plc and a Non-Executive Director of Low Carbon Accelerator Limited.

David is a chartered accountant, and has Masters in Theology from both Cambridge and Edinburgh universities and a Masters in Finance from the London Business School

Appointment to the Board:

August 2017

Vanessa Simms

Independent Non-Executive Director

A N R

Contribution and Experience

Vanessa has extensive experience in senior finance roles across several different, and capital intensive, industries, including real estate, medical devices and telecommunications.

Her broad and varied experience in strategic capital allocation, finance, risk and internal control is invaluable in her role as Chair of the Audit Committee.

Vanessa is CFO of Land Securities Group plc, and has worked in finance for over 20 years. Prior to her role at Land Securities Group plc, Vanessa was CFO of Grainger plc, held a number of senior positions within Unite Group plc, including Deputy Chief Financial Officer, and was UK finance director at SEGRO plc.

Vanessa is a Fellow of the Association of Chartered Certified Accountants and has an Executive MBA from Ashridge.

Appointment to the Board:

June 2018

Nicola Hodson

Independent Non-Executive Director

A N R

Contribution and Experience

Nicola brings valuable technology expertise, as well as having extensive experience in business and digital transformation, sales and IT in leading global companies.

As Chair of the Remuneration Committee Nicola brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders.

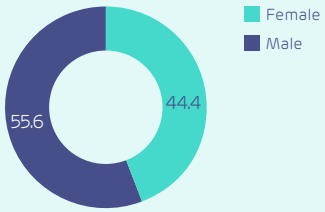
She is currently Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, and was Chief Operating Officer of Microsoft UK. Previously she had P&L and sales roles at Siemens, CSC (now DXC) and EY.

Nicola is a Non-Executive Director of Beazley plc.

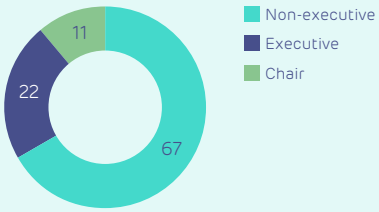
Appointment to the Board:

January 2018

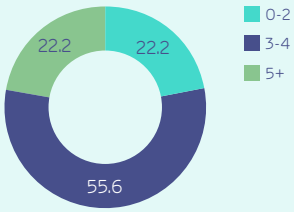
Gender diversity (%)
(As at 31 December 2021)

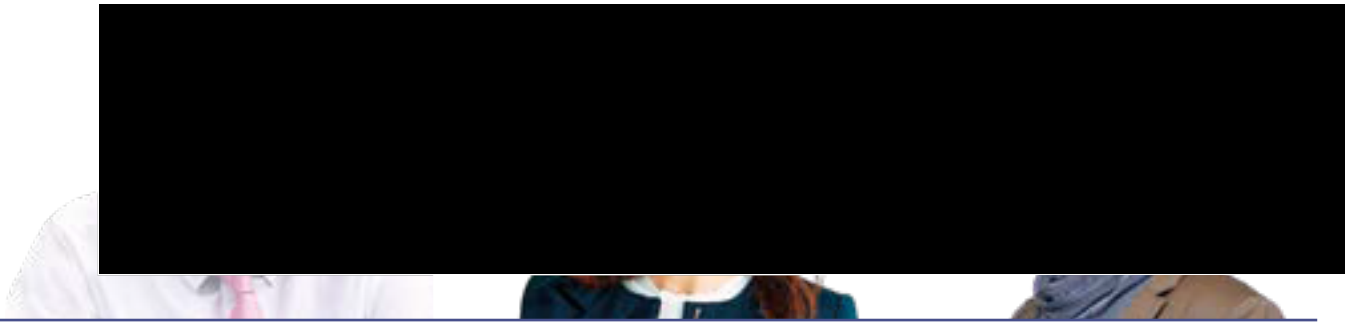


Composition (%)
(As at 31 December 2021)



Tenure in years (%)
(As at 31 December 2021)





John Baxter
Independent Non-Executive Director
N R

Contribution and Experience
John brings to Drax highly valuable engineering, health and safety, and energy generation experience, with over 45 years working across the nuclear, electricity, oil and gas sectors.

John was previously at BP plc, most recently as Group Head of Engineering & Process Safety, prior to which he worked at the UK utility Powergen plc as Group Engineering Director, as well as roles as a UKAEA Board member and also as a nuclear submarine engineer officer.

He is a Non-Executive Director of Sellafield Ltd and chairs the Sellafield Board Committee on Environment, Health, Safety & Security.

He is a Chartered Engineer, and Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh. John has served as President of both the Institution of Mechanical Engineers and The Welding Institute.

Appointment to the Board:
April 2019

Kim Keating
Independent Non-Executive Director
N R

Contribution and Experience
Kim is a Professional Engineer with 25 years of broad international experience in the oil and gas, nuclear, hydropower, and mining sectors. Most recently, Kim was the Chief Operating Officer of the Cahill Group, one of Canada's largest multi-disciplinary construction companies with operations across the country.

Prior to joining the Cahill Group in 2013, Kim held a variety of progressive leadership roles from engineering design through to construction, commissioning, production operations and offshore field development with Petro-Canada (now Suncor Energy Inc.).

Kim is currently a Non-Executive Director of Yamana Gold Inc. and Major Drilling International Inc. She has led a range of innovative growth initiatives including climate change and renewable energy strategies. Kim is a Fellow of the Canadian Academy of Engineering, holds a Bachelor of Civil Engineering degree and an MBA. She also holds the Canadian Registered Safety Professional (CRSP) designation.

Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. She graduated from the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation.

Appointment to the Board:
October 2021

Erika Peterman
Independent Non-Executive Director
A N

Contribution and Experience
Erika brings extensive experience gained from more than 25 years working in global organisations, enabling the delivery of change and growth in complex, world-leading businesses. She brings broad knowledge serving various parts of the chemicals industry, across a range of sectors from plastics, petrochemicals, agriculture and pharma.

Erika is currently Senior Vice President at BASF Corporation where she leads the North American Chemical Intermediates business. Erika has held a number of management and senior executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management roles. She actively supports BASF's talent and workforce development programs as well as a range of their diversity and inclusion initiatives.

Erika serves on the University of Houston's Engineering Leadership Advisory Board and chairs the Planning Committee as Board Trustee at Chatfield College in Cincinnati, Ohio. She is a member of the Executive Leadership Council, a non-profit whose mission is to globally accelerate the development of successful black executives across the lifecycle of their careers. Erika holds a BSc in chemical engineering from the Georgia Institute of Technology and an MBA from the University of Houston.

Appointment to the Board:
October 2021

Corporate Governance Report: Compliance with the UK Corporate Governance Code 2018 (Code)

Reports on how Drax, the Board and its Committees satisfied the Principles and Provisions of the Code were considered formally at two meetings during 2021. The meetings included discussions about the steps being taken and how they might evolve in 2021, the effectiveness of stakeholder and colleague engagement, and how the Board assesses, monitors and constructively influences culture. Also discussed were the actions taken

Board Leadership and Company Purpose

Principles

A. Promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.
B. Purpose, values and culture
C. Resources and effective controls
D. Engagement with stakeholders
E. Workforce engagement and whistleblowing

The Board has clearly articulated the Group's purpose (to enable a zero carbon, lower cost energy future), ambition (to become carbon negative by 2030) and business model. The Board promotes a culture of openness and collaboration, setting a clear and positive tone to promote our values.

This underpins the Group's strategy – to be a global leader in sustainable biomass pellets, to be a global leader in negative emissions, and to be a leader in UK dispatchable, renewable power – whilst also supporting the UK's ambition to achieve net zero by 2050.

Items such as health, safety and wellbeing, ethics and employee engagement are standing agenda items at Executive Committee and Board meetings. This provides oversight, identifies areas for improvement and practices which enable positive engagement, underpinning the culture of respect.

The workforce engagement forums meet quarterly. Key issues discussed in 2021 included the ongoing support for colleagues working from home, our new hybrid way of working, actions to support mental health and wellbeing, how Drax supports diversity and inclusion, and company strategy (particularly in light of climate change and the Pinnacle acquisition). Chair, Philip Cox, and CEO, Will Gardiner, meet quarterly with the chairs of the workforce forums, supported by Hillary Berger, Group General Counsel and an Executive Committee member. A report on these meetings is included in the subsequent CEO report to the Board.

Employee engagement surveys are typically undertaken annually. Action from the 2020 survey included changes to flexible working patterns to reflect colleague feedback. (You can read more about how the Board monitors and assesses culture on page 105).

Division of Responsibilities

Principles

F. The role of the Chair
G. Board composition
H. Non-Executive Directors
I. The company secretary and Board resources

The Board comprises the Chair of the Board, two Executive Directors and six independent Non-Executive Directors (all of whom were considered independent on appointment and one of whom, David Nussbaum, acts as Senior Independent Director).

The Non-Executive Directors, led by the Senior Independent Director, conducted a review of the Chair's performance. The Chair was not present at this meeting. The Senior Independent Director then provided feedback to the Chair.

Non-Executive Directors routinely scrutinise performance against business objectives (including financial, strategic and other measures captured in the Group Scorecard). They hold management to account and provide challenge and guidance in an open and constructive environment. Examples of such challenge in 2021 include better tracking and reporting on programme

Composition, Succession and Evaluation

Principles

J. Appointments to the Board and succession planning
K. The skills, experience and knowledge of the Board and Committees
L. Board evaluation

The Nomination Committee comprises the Chair of the Board (who also chairs the Committee) and six independent Non-Executive Directors.

All appointments to the Board are subject to a formal, rigorous and transparent process. During 2021, two new Non-Executive Directors were appointed to the Board, supported by external search consultants Audeliss. You can read more about this on page 113. All new Directors undergo a thorough induction programme.

Each year the Nomination Committee reviews the Group's succession plan, identifying colleagues who have the potential to progress to more senior roles across a time frame of one to five years. The review is based on merit and objective criteria and focuses on various aspects such as technical skills, experience, behaviours,

Audit, Risk and Internal Control

Principles

M. The effectiveness of internal and external audit functions
N. Fair, balanced and understandable assessment
O. Risk management and internal control

The Audit Committee comprises four independent Non-Executive Directors. The Committee chair was considered independent on appointment as chair, and has recent and relevant financial experience.

The Audit Committee provides oversight and challenge of the Group's financial statements to ensure they provide a fair, balanced and understandable assessment of the Group's position and performance.

Remuneration

Principles

P. Remuneration policies and practices and alignment to long-term strategy
Q. Executive remuneration
R. Independent judgement and discretion and remuneration outcomes

The Remuneration Committee comprises five independent Non-Executive Directors and the Chair. The Committee chair was considered independent on appointment as chair and has relevant committee experience.

The current Directors' Remuneration Policy ("Policy") was approved by shareholders at the 2020 AGM. The Policy seeks to align rewards with the Group's purpose and strategy, promote long-term sustainable success and reflect the priorities of stakeholders. Annual bonus metrics are the same for all participating colleagues, including Executive Directors, ensuring alignment. In 2020, the Committee determined and communicated that pension arrangements for any new Executive

You can find the Code on the Financial Reporting Council website at www.frc.org.uk

in addressing recommendations from the most recently completed externally led Board and Committee performance evaluations. It is the Board's view that, other than in respect of the alignment of executive pension contributions (previously disclosed and also on page 140) the Company applied the principles and complied with the provisions of the Code during 2021.

In June 2021, the Board attended a site visit at Drax Power Station. This gave Directors the opportunity to visit key projects, meet operational colleagues, and gain invaluable insight into the local culture of the business. The visit included learning about the experiences of apprentices working on the BECCS programme and meeting project leaders working on the 'Fit for the Future' initiative for the Drax Power Station. In December, the Chair and Senior Independent Director David Nussbaum, visited our Hydro sites in Scotland. Following the easing of Covid-19 restrictions, we are planning further site visits for 2022.

The Board understands that culture is a key factor in the success of any acquisition. During 2021 the Board paid particular attention to understanding the culture of the Pinnacle business as a means of supporting the integration planning process.

The Board ensures that both it, and the business, actively engages with a wide range of stakeholders to encourage meaningful two-way participation and ensure the Group makes a positive contribution to wider society. Board papers submitted for material decisions, and the assessment undertaken at Board meetings, consider the impact on wider stakeholders, and the Board routinely receives updates on stakeholder engagement. You can read more about this on pages 34 to 41 and on page 107. The Chair, Senior Independent Director and Chairs of the Audit and Remuneration Committees are all available for engagement with shareholders.

Diversity, Equality and Inclusion are an important aspect of the work of the Board, which is keen to set the right tone. The Board assesses actions being taken in the three core areas of the strategy: Data (understanding and tracking changes being made to the socio-economic and cultural balance of colleagues working across the Group); Educate (positive steps to inform behaviours as part of driving change); and Inspire and Recruit (encourage people throughout the organisation to participate and recognise the importance of their involvement in realising shared objectives). Progress in each pillar is reviewed monthly at a Diversity and Inclusion steering committee, with the CEO providing regular updates provided to the Board. You can read more about this work on pages 96 and 113.

The Group has a confidential whistleblowing telephone hotline and web-portal available to enable colleagues and third parties to raise matters of concern. The Board oversees whistleblowing, and receives regular updates and discusses findings from investigations.

execution to aid understanding of project milestone delivery, and the tracking and reporting of emissions at each operating plant in North America as part of realising targeted reductions.

Before regular Board meetings, the Chair and Non-Executive Directors meet without the Executive Directors being present, giving them the opportunity to consider and discuss matters. The Audit Committee, which the Board Chair, Philip Cox, attends by invitation, also provides routine agenda time to discuss matters in the absence of management. These agenda items typically include meetings with the external and internal auditors.

The Board approves additional appointments in advance, taking into account the additional demands on directors' time. No Executive Director has a non-executive position in a FTSE company.

All Directors have full access to the services of the Company Secretary. The Board as a whole approves the appointment or removal of the Company Secretary. The Company Secretary, working closely with the Chair, ensures that the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently.

attitudes and diversity. This ensures the business has the right leaders in place to deliver our purpose and strategy. The most recent review was conducted in December 2021, which also assessed the capabilities required to support progress in delivering the breadth of projects across key functions of the Group.

All Directors seek annual re-election (or election at their first AGM following appointment). For the 2022 AGM, each of Kim Keating and Erika Peterman will be seeking election, as they were appointed during the 2021 financial year.

An externally facilitated evaluation of the Board was undertaken in 2019. As the Chairs of the Audit and Remuneration Committees were new in post at that time, it was agreed that the 2019 review should focus just on the Board. In 2020, Board

Alchemy performed an externally facilitated evaluation of the Committees, with actions considered during 2021. An internal evaluation of the Board and Committees took place in 2021. You can read more about this on page 115.

The composition and activities of the Nomination Committee can be found in the Nomination Committee Report on page 112.

The Board has in place procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Group is willing to take to achieve its long-term strategic objectives. Details of the approach to risk management, the process controls and principal risks, together with mitigation strategies, appear on pages 76 to 91. In 2021 the Committee undertook a formal tender in preparation for the end of tenure of the present external auditor Deloitte LLP, which concluded with a recommendation that PwC be appointed for the financial year commencing 1 January 2024.

The composition and activities of the Audit Committee can be found in the Audit Committee Report on page 118.

Directors would immediately be aligned with the wider workforce and, from 1 January 2023, the contribution rates for existing Executive Directors will be aligned with the wider workforce.

During 2022, the Remuneration Committee will review the Policy and consult with shareholders as part of a consideration of possible changes.

The Remuneration Committee scrutinises performance related pay at the point of completing a measurement period and has discretion to ensure that remuneration outcomes are adjusted where it considers that such adjustment more appropriately aligns reward outcomes to Group performance.

No directors are involved on decisions regarding their own remuneration.

The Policy, the composition and activities of the Remuneration Committee, and remuneration outcomes can be found in the Remuneration Committee Report on page 130.

Corporate Governance Report: Executive Committee

Role of the Executive Committee

The Executive Committee focuses on the delivery of the Group's strategy, assessing the adequacy of the Group's financial structure, operational and financial performance, innovation, organisational development, and change. This is enabled by engagement with the workforce and other external stakeholders, including the UK Government and NGOs. The Committee considers stakeholder engagement, with a focus on the political landscape that could impact the Group's ability to execute its strategy. There are more details about such engagement on pages 34 to 41.

The Executive Committee develops and considers policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations. These policies and procedures include our Code of Conduct, Supplier Code of Conduct and Diversity and Inclusion Policy.

Following the acquisition of Pinnacle in April 2021, the Committee considered our integration plans and gained a better understanding of the opportunities our global sustainable biomass generation and supply business provides. Decisions were taken on how best to change our management structure to achieve these opportunities as the business grows its biomass, bioenergy and BECCS business – in North America, Europe and Asia.

The Committee appointed three new members in 2021, all internal promotions – Hillary Berger, Group General Counsel; Matt White, EVP Pellet Operations; and Karen McKeever, Chief HR Officer. Penny Small took over from Mike Maudsley as Group Generation Director. Mike left the business at the end of 2021.

The Executive Committee considers business performance against the annual plan, and reviews progress in realising longer-term objectives. Reports are provided on each of the business units covering financial and non-financial metrics. The latter include matters affecting the safety and wellbeing of our workforce which is the opening agenda item for each meeting. Ethics and values are also a standing agenda item.

In 2021, the Executive Committee completed an in-depth review of all nine principal risks. Each principal risk is owned by a member of the Executive Committee. Following the acquisition of Pinnacle, the Pinnacle Risk Register was restructured to align with the Drax principal risk categories and risk scoring methodology. The resulting document was then circulated to each principal risk owner for review and feedback, to help establish Group-level governance of Pinnacle-specific risks. You can read more about our principal risk processes on pages 76 to 91.

The Executive Committee meets informally each week, in addition to 11 monthly meetings. Where relevant to the matters under discussion, Committee members receive the relevant briefing papers ahead of the meetings. Members also receive presentations on various business issues from senior managers within the business units.

The Committee also meets with management teams each quarter for a deep dive into operational and financial performance, to review key programmes and initiatives and assess delivery against the Group's strategy.

Biographies of the Executive Committee members can be found on the website drax.com/about-us/corporate-governance/.

A sound governance framework underpins our purpose and supports effective decision making and the delivery of our strategy

Drax Group plc Board

Responsible for setting the Group's purpose and values, for assessing and monitoring culture, and for setting and overseeing the Group's strategy and risk appetite. It also monitors performance, making sure that the necessary controls and resources are in place to deliver the Group's plans and that the Group meets its responsibilities to its various stakeholders

Audit Committee

Oversees financial reporting, key accounting judgements, internal controls and risk management systems, internal and external audit effectiveness

Page 118

Nomination Committee

Makes recommendations on the size, diversity and composition of the Board and succession planning for the Directors and senior executives

Page 112

Remuneration Committee

Oversees the Group's approach to remuneration, ensures remuneration policies support the purpose and strategy, and sets pay for the Executive Directors and members of the Executive Committee. Also considers the alignment of reward across the wider business

Page 130

Executive Committee

Focuses on the Group's strategy, financial structure, planning, operational and financial performance, governance framework, culture and diversity, succession planning and organisational development below Board level

Page 102

Ethics and Business Conduct Committee

Monitors ethical behaviour and practices across the business

Capital Allocation Process Committee

Provides oversight, co-ordination and approval for capital deployment proposals

Financial Risk Management Committee

Provides oversight and challenges the effective management of all financial risks, including trading, commodity, treasury and currency

IT Board

Provides oversight and co-ordination of IT activities and strategy, information systems and security risk

Operating Review Committees (Pellet Production, Generation and Customers)

Reviews the operational and financial performance of the business units

Group HSE Committee

Reviews and challenges the management of process and people safety, health, environment and wellbeing risks

Role of the Board

The Board determines: the Group's purpose, strategy and business model for long-term value creation; appetite for risk and risk management policies; annual plan and budget, ensuring the Group has the necessary resources to deliver the strategy; setting key performance indicators to measure performance against strategic objectives, for example, tracking cost reduction targets in the self-supply of pellets (see page 20); reviewing and advising on stakeholder engagement, including shareholder engagement and engagement with the workforce, as well as Government and NGOs, such as participation in COP26 (see page 34); considering proposals from management for acquisitions, disposals, and other transactions outside ordinary delegated limits, such as the Pinnacle acquisition and disposal of the CCGT assets; material changes to accounting policies or practices; significant financial decisions, including investment in large scale projects (such as BECCS); capital structure and dividend policy; the effectiveness of the Group's governance structure, commenting on how these should be revised to reflect the evolution of the business, including business conduct, ethics and whistleblowing; prosecution, defence or settlement of material litigation; Directors' Remuneration Policy; the terms of reference of Board committees; and the Board structure, composition and succession, including the two new appointments to the Board completed in October 2021 (see page 113).

Terms of reference

The Board has a schedule of matters reserved for its decisions and formal terms of reference for its Committees. These are reviewed periodically and the terms of reference of the committees of the Board are available to view on the Group's website at www.drax.com.

Matters not specifically reserved to the Board and its Committees under their terms of reference, or for shareholders in General Meeting, are delegated to the Executive Committee or otherwise delegated in accordance with a schedule of delegated authorities approved by the Board. The most recent review of the Matters Reserved for the Board occurred in December 2020. This review informed a detailed assessment of the Group's wider delegations of authority, which was completed in 2021.

How the Board functions

Routinely, before the formal meeting of the Board, the Chair and the Non-Executive Directors meet in private without management being present. This allows the Chair and Non-Executive Directors to exchange views and share any concerns before the meeting starts. At each Board meeting, the CEO gives a report on key business, operational and safety matters and reports on the Group's financial performance. The Board also receives regular reports on performance against the business plan, operational and financial performance, regular business reports from senior management across the Group, and updates on investor relations and wider stakeholder engagement.

During 2021, there was a focus on understanding the principal risks associated with the acquisition and integration of Pinnacle. Following acquisition, the Pinnacle Risk Register was restructured to align with the Drax principal risk categories and risk scoring methodology, to establish Group-level governance of Pinnacle specific risks. Throughout the integration process, the Board continuously monitored the risks related to the Pinnacle acquisition (as disclosed in the Shareholder Circular), with appropriate mitigations being implemented to limit the potential risk exposure. You can read more about this in Principal Risks and Uncertainties on pages 76 to 91.

In 2021, the Board considered climate-related disclosures. It received an update on management's progress against agreed plans for addressing the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations. The Board members provided feedback on the selection of climate scenarios for our scenario analysis exercise. You can read more about TCFD on pages 64 to 71. The Board was engaged to provide guidance and approval on a developing Group Sustainability Framework and reviewed a paper on the carbon target landscape and key considerations for the Drax response.

The Board receives regular industry, regulatory and topical updates from internal specialists and from external experts and advisers. Examples in 2021 included internal briefings such as a deep-dive on Treasury and Foreign Currency portfolio optimisation; detailed half-yearly updates on security matters, including cyber security, information security and the effectiveness of controls; an in-depth review of the Group's trading and optimisation strategy; and an external briefing from KPMG on changes expected on internal controls, audit and external reporting.

The core activities of the Board and its Committees are planned on a forward agenda. This is considered by the Chairs of each Committee and reviewed at least annually. A list of matters arising from each meeting is maintained and followed up at subsequent meetings. The Group Company Secretary advises the Board on governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management. The Group Company Secretary is responsible for ensuring the Board complies with all relevant processes and for assessing compliance with the Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Corporate Governance Code and the Companies Act. An important part of this is effective collaboration with other parties across all Group functions. Good training, regular discussions on key issues, and support from those in areas of critical operational risk in evaluating areas for change are also imperative.

All Board Committees are authorised to obtain legal or other professional advice as necessary to perform their duties. This includes securing the attendance of external advisers at meetings and seeking required information from any member of the Group's workforce.

The Company's Articles of Association (the Articles) give the Directors power to authorise conflicts of interest when they are presented with such matters for their review. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2021, no conflicts of interest were identified. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example, to appoint a director to a Group company). At the Annual General Meeting in April 2021, shareholders approved the adoption of new Articles, which were updated taking into account evolving regulation and best practice. For example, the Articles include provisions to enable the use of technology to support the conduct of general meetings, with shareholders attending remotely. The Articles are available on the Group's website at https://www.drax.com/wp-content/uploads/2021/04/2021-Articles-of-Association.pdf.

Culture

How does the Board monitor and assess culture?

The Board	• Regularly considers updates on workforce engagement and feedback from meetings between the Chair of the Board, CEO and the chairs of the MyVoice engagement forums. (You can read more about engagement with the MyVoice forums on page 109.) • Considered culture and how this might evolve as part of the Pinnacle integration planning and monitoring. • Reviews and challenges management on the results from the annual workforce engagement survey and management's action plans. This was most recently undertaken in December 2021. • Reviews the health and safety performance of the business at every meeting, including consideration of culture and how colleagues at sites are enabled to engage with and contribute to safety practices. • Board members visit site locations to meet colleagues to better understand both the business operations and the local culture. Exercising caution in relation to social distancing throughout 2021, Board members visited sites at Northampton, Selby, Cruachan and the run-of-river hydro locations at Galloway and Lanark. • Oversees Principal Risks, including strategy, people, health and safety, and climate. • Oversees and regularly considers updates on whistleblowing. • Reviews and approves the Drax Code of Conduct, which covers ethics and broader topics including health, safety and the environment. • Reviews and approves the Supplier Code of Conduct. This is the framework for best practice and compliance with appropriate standards to which we expect our suppliers to operate, to the benefit of the communities in which Drax and they operate. • Considered progress on harmonising policies and procedures across the Group in respect of the material areas of the activities, including health, safety and environment; people (including diversity and inclusion, and flexible working); business ethics; market abuse; risk management; and political engagement.
The Audit Committee	• The Committee reviews annually the Group Ethics and Business Conduct Committee (EBCC) activities for the year, including Speak Up reports and investigations. • The Business Ethics team also reports regularly to the Audit Committee on investigations and key matters, which includes Speak Up (whistleblowing) to understand how the matters arising might contribute to understanding colleague behaviours in fulfilling the Group's internal controls.
The Remuneration Committee	• Sets the targets for incentive plans, ensuring they are aligned with the Group's purpose, values and strategy. • Conducts a review of the effectiveness and appropriateness of the Remuneration Policy to determine potential areas for change in subsequent periods. • Considers and reviews the effectiveness of KPI's and how they link to delivery of strategy and delivering positive change (including cultural and behavioural). For more information see pages 20 and 21. • Annually reviews the Gender Pay Gap disclosures.
The Nomination Committee	• Oversees how the Group promotes diversity and inclusion in the talent pipeline and succession planning.
The Executive Committee	• The subject of ethics and values is a standing agenda item for the Executive Committee. The Group CFO, who was Chair of the EBCC and Committee sponsor during 2021, supports the CEO's regular updates to the Board. • Develops plans for Board consideration on matters such as responding to workforce engagement feedback, promoting diversity and inclusion and dignity at work. • Weekly Group-wide CEO "Ask Will" email and Q&A.
The Group Ethics and Business Conduct Committee (EBCC)	• A sub-committee of the Executive Committee, the EBCC meets quarterly and monitors and supports initiatives to enhance and assess ethical behaviour and business conduct across Drax. • Members of the EBCC include an Executive Director (the CFO and Chair of the EBCC during 2021) and five Executive Committee members (the Director of Corporate Affairs, Chief Commercial Officer, Group Generation Director, EVP Pellet Production and the Group General Counsel). This supports an understanding of business culture and attitudes and informs Board and Executive Committee discussions. • Supports the Group's commitment to doing the right thing in its business practices by making sure there are appropriate communications to raise awareness and provide appropriate training that informs behaviours in accordance with our Code of Conduct. For more information see pages 61 to 63. • Conducts an annual review and risk assessment of each compliance programme, covering anti-bribery and corruption (including conflicts of interest), fair competition, financial crime, privacy, Speak Up (whistleblowing), and supply chain human rights.

The Business Ethics team is responsible for our Speak Up (whistleblowing) programme and the external, anonymous and confidential Speak Up service available within Drax, which is available in multiple languages and is promoted in our Supplier Code of Conduct. This also extends to third parties, such as suppliers and visitors to our sites. The team responds to any reports from within Drax, as well as those referred to the Company via the external service. The Group Company Secretary is the Whistleblowing Officer and has oversight of all Speak Up investigations, which are managed by the Business Ethics team.

In May 2021, an internal audit of our Speak Up arrangements was undertaken, and its findings reported to the Audit Committee in July 2021. The report noted the significant evolution of the programme since late 2019. Recommendations for action included adding scenarios to training; benchmarking the Speak Up management system; and some processes for case management. These had all been progressed during the second half of 2021, with most actions being completed and a few being carried over into 2022.

Whistleblowing was the main topic of our annual Code of Conduct eLearning refresher in November 2021. In the 2021 My Voice engagement survey, 86% of colleagues responded positively when asked whether they "*feel comfortable to speak up or report any concerns*". For more information on Speak Up, see pages 62 to 63.

In July 2021, the Speak Up programme was adapted and rolled out to new colleagues in Canada, which included awareness raising communications and discussions at business meetings. With advice from Canadian experts, the adaptations took account of Canadian laws and practices.

Board decision-making and stakeholder considerations – Pinnacle acquisition

In late summer 2020, a process of engagement with the Board of Directors was initiated proposing that management undertake due diligence for the possible acquisition of Pinnacle. The Board was involved in each phase of the review and negotiations, assessing the rationale for acquiring Pinnacle in conjunction with a detailed financial, business and strategic case. Management continued to update these as discussions progressed. Given the acquisition was a Class 1 transaction under the UK Listing Rules, the process of engagement and the assessment of the acquisition was supported by work in conjunction with the Group's advisers. These included Slaughter & May (UK) and Osler, Hoskin & Harcourt (Canada) (legal aspects), Deloitte and PwC (financial matters), and Royal Bank of Canada (corporate banking).

There were clear parallels in the respective businesses of Drax and Pinnacle. Even so, the Board appreciated the acquisition would take Drax into new activities, including operating plants in Canada and the supply of pellets under contract to customers in Asia and Europe. The opportunities also required the Board and management to develop a more detailed understanding of key stakeholders. These included parties directly connected with the conduct of the Group's enlarged business, such as colleagues, joint venture partners and suppliers. The Board and management also considered stakeholders with indirect and vested interest in Pinnacle's activities, including local communities, NGO's, regulators and regional and national governments.

The Board rigorously considered the sustainability and environmental aspects of the enlarged Group's activities. This involved reviewing the characteristics of the regions in Canada from which Pinnacle obtains its fibre, including an in-depth assessment of the commercial, heritage and natural characteristics of forests and Pinnacle's sourcing strategy. These factors were considered with reference to the sustainability criteria and policy of Drax. Consideration was also given to the broader safety and environmental policies and practices, to identify areas where action might be required to align with Drax. There was also consideration of the differing regulations in Canada, the US and UK, and the work required to comply and report on such matters. In conjunction with such work, Will Gardiner asked the Independent Advisory Board to participate in both understanding the issues and assessing the adequacy of measures being taken by Drax. These measures were designed to ensure Drax continued to implement robust and sustainable sourcing practices across its potentially enlarged business.

The Board reviewed in detail the views of stakeholders in Canada on the impact such sourcing could have upon the region's forests. The impacts under consideration included the sustainability, both commercially and ecologically, of historic forests, in addition to biodiversity, with due regard to the impacts on local communities. The Board challenged management to establish and undertake effective programmes for engagement and considered the resulting plans. The planning has included, and will continue to include, local communities, First Nations groups, and others, such as joint venture partners, with vested interests in the heritage and proper stewardship of the forests from which sustainable biomass is sourced. Through such engagement we expect to be informed on the future development of our strategy, for example extending the aspects of our sustainability strategy to also be more nature positive.

Strong community relationships are critical to our long-term success in Canada, where forests are a public resource. Recognising the importance of First Nations in Canada, and with consideration of the communities where we operate, we have been bringing together a dedicated team from key business units since the acquisition. This team will explore ways we can enhance relationships and develop mutually beneficial agreements and partnerships with First Nations. In addition, we will seek ways to support First Nations' goals while creating opportunities within our workforce to better understand the history and culture of indigenous peoples.

Drax seeks to ensure that colleagues and relevant "associated persons", such as certain types of contractors, receive appropriate communications and training on key matters underpinning ethical behaviours. These include Anti-Bribery and Corruption (including Conflicts of Interest), Fair Competition, Financial Crime, Privacy, Supply Chain, Human Rights and Speak Up (whistleblowing).

Drax also regularly reviews its suite of policies to ensure continuous improvement. Annual refresher eLearning of the Code of Conduct was deployed to all UK and US colleagues in November, and the Code of Conduct will be deployed to Pinnacle colleagues during 2022. There is more information on our approach to the management of ethics and integrity on pages 61 to 63.

Diversity

We explain our work promoting diversity on pages 59 and 60. The table below shows the gender diversity split on the Board and in the wider workforce at 31 December 2021.

	Male		Female		Total	
Gender	No.	%	No.	%	No.	%
Board members	5	55.6	4	44.4	9	100
Senior managers[1]	44	62.9	26	37.1	70	100
All employees[2]	2,090	70.2	886	29.8	2,969	100
Total	**2,137[3]**	**70.0**	**916**	**30.0**	**3,053**	**100**

(1) Direct reports of the Board (i.e. Executive Committee) and their direct reports.
(2) Excluding Board members and senior managers.
(3) Two Executive Directors are also members of the Executive Committee ("Senior Management"). They are included in both sets of figures to ensure the correct diversity is reflected, but have been removed from the total to ensure the correct headcount is reflected.

Board leadership of stakeholder engagement

The Board is responsible for engagement with stakeholders. It ensures that appropriate time is given to discussing the views and feedback from stakeholders and that sufficient resources are available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of our key stakeholders, and the concerns they have raised, and the date of each meeting with them.

Members of executive management, including Executive Directors, provide regular updates to the Board, to ensure awareness and inform discussions. The Board takes these opportunities to assess and challenge management's approach relating to engagement.

During 2021, the Board heard reports on the engagement strategy with a range of stakeholders. The topics included BECCS, the Humber Industrial Decarbonisation Deployment Project, the potential expansion of the Cruachan pumped storage power station (see page 36), biomass acceptability, biomass strategy, and participation at COP26. The CEO's report to the Board regularly includes a section detailing activity around key stakeholder relations and the relevant feedback received from stakeholder interactions.

Supporting the Board's duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006, Board discussions, and supporting papers, for material decisions consider the likely impact on those stakeholders affected by the decision. You can find our Section 172 Statement on page 35. The article on page 106 provides an example of this in action in respect of the decision in 2021 to acquire the Pinnacle business.

For more detailed information on our stakeholders and how we engage with them please refer to our "Stakeholder" section on pages 34 to 41.

Directors' development and induction

To assist the Board in undertaking its responsibilities, a programme of training and development is available to all Directors, with training needs assessed as part of the Board evaluation procedure.

The Board's programme includes regular presentations from management, and informal meetings, that build an understanding of the business and sector, or in areas recognised as being technically complex. Such training is intended to support a deeper understanding as well as equipping the Non-Executive Directors with insight into how the Drax approach compares with the practices of its peers.

Throughout 2021, the Directors also had access to the advice and services of the Group Company Secretary. Directors may take independent advice at the Company's expense, when it is judged necessary to discharge their responsibilities effectively. No such independent advice was sought in 2021.

All new Directors receive a comprehensive and tailored induction programme, including meetings with key managers, site visits, and briefings on key operational matters, Board procedures and governance matters. The table below summarises the key elements of the induction programmes for Kim Keating and Erika Peterman. Some took place during the final quarter of 2021, with others planned for the first half of 2022:

Focus of the induction	Key stakeholders engaged
Strategic and operational review	A series of one-to-one meetings with each member of the Executive Committee
Financial and internal controls review	A series of meetings with finance and senior leadership
Investors, stakeholders and sustainability	A series of one-to-one meetings with the Head of Investor Relations, Group Director of Sustainability and Group Director of Corporate Affairs
Visits to key business sites	The scheduling of visits to operational sites in Canada, the US and the UK, to facilitate in-person meetings with local management and colleagues
Directors' duties and responsibilities, the Group's governance structure, legal and regulatory matters	Meetings with the Group Company Secretary and Group General Counsel, meetings with external counsel and external advisers
Additional specific training with subject-matter specialists	External training on the Market Abuse Regulations, teach-ins on the key issues associated with carbon pricing for our present and future business models, and any training requirements identified as appropriate during the induction programme

Number of meetings held

The Board and its Committees have regular scheduled meetings and hold additional meetings as required. The Board has eight scheduled meetings each year, with the Board meeting at least annually to specifically consider strategy. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the Annual General Meeting (AGM) and any other General Meetings.

Board roles

The key responsibilities of members of the Board are as follows:

Position	Role
Chair	Responsible for leading and managing the Board, its effectiveness, and governance. Makes sure Board members are aware of, and understand, the views and objectives of major shareholders and other key stakeholders. Helps to set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
CEO	Responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.
CFO	Supports the CEO in developing and implementing strategy, in relation to the financial and operational performance of the Group.
Senior Independent Non-Executive Director	Acts as a sounding board for the Chair and a trusted intermediary for other Directors. Available to discuss any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or the Executive Directors.
Independent Non-Executive Directors	Responsible for bringing sound judgement and objectivity to the Board's deliberations and decision-making process. Constructively challenge and support the Executive Directors. Monitor the delivery of the strategy within the risk and control framework set by the Board.

Time commitment

Directors' commitments outside of Drax are kept under review to make sure they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of the Chair's letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the Non-Executive Directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy off-site event and at least one site visit each year.

In addition, Non-Executive Directors are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of the Audit, Nomination and Remuneration Committees is an additional three to four full days a year in each case. However, in practice, considerably more time is devoted, particularly by the Chairs of the Committees.

Executive Directors may, with the prior approval of the Chair, take on one additional role in an external listed company. Neither of the Executive Directors have taken on such a role. Non-Executive Directors may, with the prior approval of the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role.

Non-Executive Directors are encouraged to undertake visits to Drax operations and spend time with management and the workforce. This is designed to build and then maintain their knowledge of the developing business and to understand the operational challenges. Visits undertaken in 2021 enabled the Board to assess the effectiveness of actions being taken and to scrutinise both the financial and non-financial impacts of the pandemic.

Board composition and independence

The Board has reviewed the independence of each Non-Executive Director. None of the Non-Executive Directors who served during the year had any material business or other relationship with the Group, and there were no other matters that were likely to affect their independence of character and judgement. The Board recognises that in view of the characteristics of independence set out in the Code, length of service is an important factor when considering the independence of Non-Executive Directors and that directors who have served more than nine years may not be considered independent.

The Board considers all the Non-Executive Directors to be independent.

Workforce engagement

The MyVoice Forums (MVFs) were established in 2019. These had been selected by the Board as the most appropriate means to facilitate workforce engagement – this decision had been informed by the workforce forums already in place in parts of the business, which had demonstrated a sound basis on which to build a Group-wide framework of effective and direct engagement between the Board and the workforce.

Each business unit has a MVF, comprising approximately 10 colleague representatives, and across the Group we have approximately 50 representatives. They are drawn from across our career levels, jobs roles and represent a range of diversity and experience. Collectively, the MVFs form a structured network of members across the Group, to ensure all colleagues' voices and views are heard.

A member of the senior leadership team and an HR representative support these forums and attend each meeting. The MVF chairs meet quarterly with the Chair and CEO to discuss colleague sentiment and to provide feedback on key topics. Each of these meetings features a discussion about the feedback on previously agreed topics of importance to the Board and to the workforce. Following each meeting, the Group Chair and CEO provide updates to the Board to make sure all Directors understand the views of colleagues. Engagement with the MVF chairs has been valuable in helping the Board gain ongoing feedback as the business continues to evolve and grow.

Topics discussed in 2021 included our Covid-19 response, and plans for returning to the offices. In response to feedback, management introduced a new, hybrid, way of working with flexible working policies to support colleagues. How Drax is working to promote Diversity and Inclusion continues to be a key topic. We have celebrated events such as Pride, Black History Month, and International Women's Day, and used these occasions as an opportunity to educate and share ideas with colleagues. Organisational transformation has also featured regularly on the agenda, providing an opportunity for the Directors to understand how changes were being received and the sentiment of the workforce. The forums offer a safe space in which to answer direct questions raised by the chairs, and to discuss important issues.

The MVFs continue to be a key part of Drax's listening strategy and work in tandem with the My Voice engagement survey. They provide valuable, deeper, insight to the survey themes and deliver further input to the resulting action plans. A key action area following the 2020 survey was career and development opportunities. With MVF input, this resulted in an action plan delivered by the Drax HR team and led to improved scores in the 2021 survey.

Following the 2021 survey, our MVFs again will provide valuable insight into the key themes: career and growth opportunities; our charity and community policy; our role in tackling climate change, and acting as a responsible business. The engagement and feedback from the forums will be important in driving our action plans for 2022.

Each week, the CEO writes to the entire workforce, providing an update both on what he and the business have been doing, and answering questions submitted by colleagues. During 2021 the CEO answered over 1,600 questions on topics including Covid-safe working arrangements, COP26, electric vehicle charging for colleagues at our sites, and our move to more flexible, hybrid working patterns.

Board attendance 2021

The table below shows the number of meetings held and the directors' attendance during 2021.

Director	Date appointed as a director and member of the Board	Scheduled meetings[1]	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	8	8	100%
Philip Cox	1 January 2015	8	8	100%
Will Gardiner	16 November 2015	8	8	100%
Nicola Hodson	12 January 2018	8	8	100%
Kim Keating	21 October 2021	2	2	100%
David Nussbaum	1 August 2017	8	8	100%
Erika Peterman	21 October 2021	2	2	100%
Andy Skelton	2 January 2019	8	8	100%
Vanessa Simms	19 June 2018	8	8	100%

Notes:
(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.

Summary of the Board's activities in 2021

Board strategy event
- Over three days in October 2021, the Board conducted a detailed review of the strategy, which included a series of presentations from management to the Board and Executive Committee
- Discussions covered progress made during the year in delivering on strategic imperatives, investment opportunities and objectives over a five- to ten-year horizon (including investment in the current business and emerging technologies, such as BECCS) and how Drax is contributing to addressing climate change
- Discussions also considered emerging and projected trends, the developing environmental landscape, risks to the strategy and stakeholder considerations

Pinnacle acquisition
- During the latter part of 2020, and the first quarter of 2021, the Board considered the proposed acquisition of Pinnacle. The work included due diligence and associated with that the financial case for the acquisition, stakeholder engagement and the impact upon them of proceeding with the transaction. Also considered were the associated communications and feedback, potential challenges to realising the transaction, including conditions precedent to the transaction being approved by key stakeholders, the target operating model, working capital, procedures and controls, integration planning, investor presentations, and the shareholder circular. The Board considered and approved judgements about the Company's financial position and prospects under Financial Position and Prospects Procedures (FPPP) in support of the Class 1 circular
- Following shareholder approval, the Board was kept appraised on the conclusion of the relevant conditions precedent to completion, including approvals from relevant regulatory agencies. The Board considered the progress of the integration project streams, with updates at each Board meeting

Health, safety and wellbeing
- Considered regular updates from business units, including on process and behavioural safety and culture
- Monitored the implementation of the new Group-wide incident management reporting system
- Used input from the MyVoice forums to implement plans to address wellbeing across the Group
- Reviewed the Group Wellbeing, Diversity and Inclusion, Dignity at Work and Flexible Working policies

Governance
- Monitored progress and challenged management on the integration of Pinnacle.
- Considered the appropriate Board composition in light of the Pinnacle acquisition
- Appointed two new Non-Executive Directors following an externally-supported search
- Considered the outcomes of the Board and Committee evaluation and planned actions
- Approved the Modern Slavery Act statement
- Considered and approved a new group Sustainability Framework
- Completed a full review of the Company's compliance with the Code of Conduct

Stakeholders
- Considered the Group's key stakeholders and approved a framework for ensuring due consideration in decision-making
- Received updates on key engagement activities (see pages 34 to 41 for further information)
- The CEO attended COP26, speaking at several forums and, along with other colleagues, engaged with key stakeholders on a range of matters relevant to the strategy
- Engaged with the workforce through MyVoice Forums and considered colleagues' feedback including reports and updates from the meeting between the Chair and CEO and the chairs of the workforce forums
- Considered the outcomes of the workforce engagement survey and agreed follow up actions
- Board site visit to Drax Power Station, meeting with management and operational colleagues
- Received regular updates on Investor Relations programmes, including an Investor Relations audit report presented in the autumn
- Reviewed and approved the Climate Policy

Operations
- Considered and approved the development of, and investment in, BECCS
- Considered and approved the planning process to build a new underground pumped hydro storage power station at Cruachan – more than doubling the electricity generating capacity
- Approved the Group's trading strategy
- Monitored business performance against the business plan
- Considered the IT, data and cyber security strategy of the Group

Finance and strategy
- Approved the Strategic Plan to 2025
- Approved the Annual Plan for 2021
- Approved the new C$300m facility to reduce the Group's cost of debt to below 3.5% and include an ESG component which adjusts the margin payable based on Drax's carbon intensity
- Reviewed the dividend policy, and approved the final and interim dividends with due consideration of distributable reserves
- Approved the 2020 Annual Report and Accounts and the 2021 half-year results
- Completion of the CCGT disposal

Risk
- Considered the Group's risk appetite and approach to risk management
- Reviewed the Group's principal risks, including an assessment of risks associated with Pinnacle and the integration of those risks into the Group Risk Map
- Considered the finance and risk update

Nomination Committee report

We are committed to building a supportive, diverse and inclusive working environment where everyone can be themselves. This starts at the top of the organisation.

Philip Cox CBE, Chair

Committee members

Philip Cox (Chair)
John Baxter
Nicola Hodson
Kim Keating (joined October 2021)
David Nussbaum
Erika Peterman (joined October 2021)
Vanessa Simms

Attending by invitation

CEO

Number of meetings held in 2021: Four

The Group Company Secretary is Secretary to the Committee.

Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	4	4	100%
Philip Cox	22 April 2015	4	4	100%
Nicola Hodson	12 January 2018	4	3	75%
Kim Keating	21 October 2021	1	0[1]	0%
David Nussbaum	1 August 2017	4	4	100%
Erika Peterman	21 October 2021	1	1	100%
Vanessa Simms	19 June 2018	4	4	100%

(1) Kim Keating joined the Board on 21 October 2021 and was unable to attend the meeting in December 2021 due to a pre-existing commitment.

Terms of reference

The Committee, and then the Board, review the Committee's terms of reference annually, most recently in February 2022. The terms of reference are available on the Group's website at www.drax.com/governance

Role of the Committee

The Committee's principal responsibilities are to:

- Keep under review the Board's structure, size and composition (including requisite skills, diversity, knowledge and experience)
- Ensure there is a succession planning process for the directors and other senior managers, including the identification of candidates (from both within and outside Drax) who align with the objectives of the business and Group
- Conduct the search and selection process for new directors, taking advice from independent search consultants as appropriate
- Monitor and challenge initiatives and progress in addressing diversity and inclusion
- Report on Board evaluation

Nomination Committee activities since the last report

- Considered appointment of additional new Non-Executive Directors in the context of the size and composition of the Board following the Pinnacle acquisition
- Reviewed the skills of the Board as part of the Non-Executive Directors selection process
- Considered the re-appointment of Vanessa Simms
- Considered a report on succession planning at executive and senior management levels
- Assessed and commented on diversity planning and how the organisation shifted from planning to execution

Introduction

I am pleased to present the Nomination Committee Report for the year ended 31 December 2021.

As Chair of the Nomination Committee, I have overall responsibility for ensuring there is a formal process for regularly reviewing the balance of skills, experience and diversity at Board and senior management levels. This is particularly important in an organisation such as Drax which is undergoing transformative change. The work of the Committee includes challenging the executive on whether the capabilities within the organisation are sufficient to deliver the Group's purpose and strategy, and to fully address the requirements of all Drax stakeholders.

Given the pace of change in Drax, the Board and the Executive Committee have, in 2021, addressed these points in detail. Examples include the planning and execution of the Pinnacle acquisition and integration, the expansion of our biomass production plants, and the development of our BECCS project.

As an important part of that work, the Committee assesses how these developments in the business align with the Group's imperative of broadening diversity in the enlarged Group, taking into account the local communities in which we operate, wider society trends and the capabilities of the Group – and its people – to adapt. We recognise that such work is not without its challenges, and the Board is committed to playing a role in shaping that activity and ensuring diversity, equity and inclusion are a fundamental element in recruitment, retention, career progression and personal development. We recognise that such activity is central to enabling the right culture and values of the Group, and to long-term success.

The Committee considers management's actions in attracting new talent and developing the careers of people, enabling them to realise their potential. A key aspect of this involves executive management supporting colleagues in balancing their work responsibilities, maintaining a quality of life outside of Drax, supporting training and personal development, and embracing and embodying our values. You can find out more about this on pages 56 to 60.

Succession planning and diversity

In preparation for the acquisition of Pinnacle, we considered the Board's size and structure, and how to evolve its balance of capabilities, skills, knowledge and diversity. Driving these considerations was the need to provide the appropriate leadership in reflecting the needs of the enlarged Group, operating in new geographies. The Board is fully committed to addressing diversity in the evaluation and selection of suitable candidates, who would also have the skills and background to make a full contribution to the performance of the Board.

As mentioned on page 96 the Board's intention was to conduct a search that took account of these requirements. Following a review of suitable advisers with whom we could work, which included assessing their respective strengths and market presence relevant to our search criteria, Audeliss Executive Search were appointed. Audeliss are independent of the Group and have no established relationship with the Company or our Executive Directors.

A key aspect of engaging Audeliss was its philosophy on diversity. We also sought a firm that could support an international search, responding to the needs of the enlarged Group, with the ability to tap into various sectors. This meant the candidates needed to be experienced in supporting the realisation of challenging programmes across multiple territories, in sectors used to managing change. This reflects Drax's expansion in business activities across the US, Canada, Asia and Europe, which we anticipate will continue to develop both through organic and inorganic growth. Such changes also bring complexity, so the search considered candidates with experience in working in larger multi-national companies.

The Board conducted a rigorous selection process with the candidates identified by Audeliss. This process included a cross section of the Board attending meetings with potential candidates via Teams. We were very pleased with the quality and breadth of the candidates. The feedback of Board members was considered at a meeting of the Committee held in September. As a result, two candidates – Kim Keating and Erika Peterman – were selected for more in-depth discussions, which resulted in their appointment in October. You can read their biographies on page 99.

Following their appointments, out of a total of nine Board members at 31 December 2021, four (44.4%) are female, and one is from an ethnic minority background.

The timing of the appointments also allowed Kim and Erika to attend, as their first meeting with the Board, the annual review of the Group's strategy. These sessions also included meetings with the executive team and members of our senior management. Erika and Kim are being supported in their new roles through a detailed induction programme, which will include site visits, and both in-person meetings and meetings via Teams with senior colleagues and advisers.

Each year the Committee reviews the Group's succession plan, identifying those colleagues with the potential to progress into more senior roles across a timeframe of one to five years. The review focuses on factors including technical skills, experience, behaviours and attitudes. This is to ensure the business has the right people in place to deliver our strategy, working collaboratively and transparently and in ways that are consistent with our purpose and culture. The most recent meeting considering these matters in depth was held in December 2021.

The acquisition of Pinnacle in April provided an opportunity to assess not only our capabilities in the wider talent pool across our sustainable biomass business, but also the most appropriate management structure across the enlarged Group. In September, we updated our management structure to reflect the first successful phase of the integration work. The new structure supports our strategy in biomass, bioenergy BECCS and the delivery of renewable energy to our customers.

Complementary to these changes, three new members of the Executive Committee were appointed, all internal promotions. Hillary Berger, Group General Counsel; Matt White, EVP Pellet Operations; and Karen McKeever, Chief HR Officer, were each promoted. Each of them bring experience in working for multinational companies and have each joined Drax within the past two and a half years. Penny Small took over as Group Generation Director, having joined Drax in 2018 as Chief Transformation Officer. Penny previously worked at Engie where she held senior executive roles leading complex programmes within business development, integration and operations. As a result of these changes, out of a total of ten Executive Committee members at 31 December 2021, four (40%) are female. You can see more details about our Executive Committee members here www.drax.com/about-us/corporate-governance/board-and-committees/.

At its meeting in December 2021, the Committee received a report assessing succession planning looking at the Executive Directors, the Executive Committee level and senior management in the level below the Executive Committee. The Committee considered the present capabilities in the organisation, in addition to the development programmes intended to support people in addressing identified skills, knowledge or capability gaps.

The review included an assessment of the time required for identified candidates to be ready to assume more senior roles. During the discussions, the Committee offered views on the importance of continuing the proposed internal development alongside maintaining engagement with individuals outside the organisation that might also provide succession options. The Committee highlighted the importance of a robust assessment of both internal and external candidates to ensure the best possible talent is accessed for key roles within Drax. The Committee also recognised that there are aspects of what Drax does which are market-leading and highly innovative. That brings its own challenges which requires people with alternative and wider skills. In this respect Drax is evolving from a traditional engineering company to one which requires people with different capabilities. For example, a capability in innovative thinking, project management skills, an ability to work with a wide range of internal and external stakeholders, and an appreciation of engineering, scientific, and commercial challenges, and assessing and implementing new technologies. Members of the Committee also expressed their willingness to undertake mentoring for specific people, to augment the present scheme under which members of the Executive Committee mentor those in the Group's talent development programme.

Management outlined plans to advance succession planning further through the organisation and discussed steps being taken to work with external stakeholders, including schools and colleges, to attract talent. During my visit in December to meet with management at our hydro assets in Scotland, we discussed the opportunities for attracting and developing people, drawing on our presence in the local communities. I was impressed by how members of the local management collaborated across various community groups, including schools and via our learning centre at Cruachan, to teach young people about what we do and the wide variety of roles we have within Drax. This is a long-term exercise, and supporting an interest in science, technology, engineering and maths (STEM) in young people is an important part of building a more diverse workforce, which is also active at locations near to our generating plant at Selby in Yorkshire.

In my opening remarks to the Corporate Governance Report, I mentioned that more needs to be done on diversity. The Committee appreciated the considerable progress which has been made in the assessment of the Group's succession planning options, which has included how we combine the understanding of available talent with realising our plans to grow diversity at senior levels. The last year has seen progress on the gender balance at senior levels but the Committee recognises that broader aspects of diversity has to improve. We have challenged management to evolve from the assessment of how to influence and drive change in thinking and behaviours which has been the hallmark of the past 12 to 18 months, to delivering on the objectives and holding leaders to account in realising the goals. On page 30 you will see that the scorecard (used to assess the bonus opportunity) will for the first time, in 2022, include a diversity component. The Committee is fully supportive of this action in helping to deliver change.

The Board and senior management continue to recognise that Drax needs to do more, at all levels of the business, to support people from diverse backgrounds. In December 2020 we launched our three pillar Diversity and Inclusion ("D&I") plan, following on from the updated D&I Policy (see page 60 for more information). The 2021 plan goes beyond gender, with a clear commitment to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters.

Our work in this important area continues to evolve and reflects contributions from stakeholders within Drax, including feedback from a cross section of colleagues across our business, and external advice and engagement. During 2021 we implemented our revised D&I plan that supports our commitment to an inclusive culture for all. We recognise that to realise our commitment requires a better understanding of the present balance in our organisation, and, more importantly, the views and perceptions of our people on diversity. We also need to reach out beyond Drax into local communities, with a knowledge-based engagement that allows us to work with people from diverse backgrounds, beliefs and cultures. Our multi-faceted plan therefore includes changing our approach to data collection and assessment; educating and inspiring our colleagues on diversity and inclusion; and ensuring we pay attention to attracting the broadest talent available to Drax. We have invested in additional resource to lead this plan and created our first dedicated role (Diversity and Inclusion Manager) in January 2021 to lead and drive the plan across the organisation. The members of our Executive Committee participated in a dedicated inclusive leadership workshop supported by Steps Drama during which they were challenged to enable an inclusive working environment for individuals and their teams.

2021 D&I highlights

- Data – Collating colleague diversity data in the UK, with 78% of our workforce volunteering to respond to date. This insight supports meaningful action based on real time data and has helped inform the development of our Diversity, Equity & Inclusion ("DEI") strategy from 2022 onwards. We plan on extending this collection of colleague data to the US and Canada through 2022.
- Educating and inspiring our colleagues on diversity and inclusion through an inclusive leadership programme for over 200 leaders, a series of colleagues' personal diversity stories on the intranet and live panels to recognise events such as International Women's Day and Pride.
- Making careers at Drax more attractive to talented people from all backgrounds and ensuring a fair and equitable recruitment process. This has resulted in leadership hires increasing – 42% of UK leadership hires were female – and growing our overall UK female headcount from 34% to 36% in 2021.
- Our Executive Committee participated in a diversity and inclusion review with an external consultant (Dan Robertson, Director Vercida Consulting) to understand progress against our D&I ambitions and to support the formation of our DEI strategy from 2022.

We continue to operate programmes that encourage a diverse workforce to pursue careers and qualifications that fit with the opportunities that Drax offers. These include apprenticeship schemes, training programmes, and experience days where young people can learn more about what we do and the roles available. All these activities are an important part of our role in the industry. This engagement is two-way as we listen to people from diverse backgrounds to better understand what barriers exist and what support would be required to encourage them to join a business such as Drax. Our five year programme with Selby College which we started in 2020 continues. In 2021 we collaborated with Selby College to successfully bid to the Strategic Development Fund (SDF) to develop and deliver a short course on BECCS, aiming to equip a range of colleagues, supply chain workers and college students with knowledge about how BECCS works, as well as wider knowledge of carbon capture technology, alongside an ability to apply the learning in a practical setting. We also launched a STEM activity box, created with Doncaster College and University Centre, to provide learning materials and resources for school students to complete activities related to recycling. Our action with organisations such as Selby College and Doncaster College is deliberately focussed on building sustained, long-term engagement through which we are able to understand how best to support young people from different backgrounds to realise their potential. The Non-Executive Directors have challenged management to implement measures that drive change in the near term, including the colleague education programme mentioned above, as well as planning for the longer term. We appreciate that establishing partnerships and realising tangible benefits will take more time. Key to realising benefits from these activities will be tracking the plans and assessing their progress, which is another aspect where our Board believes improvements must be made.

Non-Executive Directors: terms of appointment

Under the Board's policy, Non-Executive Directors are appointed for an initial term of three years. The term can be renewed by mutual agreement if the Board is satisfied with the director's performance and commitment and a resolution to re-elect at the appropriate AGM is successful. The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years and will rigorously review any proposal to extend a Non-Executive Director's aggregate period of office beyond six years.

In 2021, the Board considered the re-appointment of Vanessa Simms, Chair of the Audit Committee, for a second term of three years. The Board considered Vanessa's skills and contribution, together with the feedback from the most recent externally supported evaluations of the Board and our Committees. Following this, and on recommendation from the Committee, the Board approved the extension of her appointment for a further three years, taking effect from 19 June 2021.

Board and Committee evaluation

The Board conducts an annual performance evaluation, ensures there are ongoing Board development activities, and provides a comprehensive induction for new Board members. In 2019, an externally facilitated evaluation of the Board was conducted by Board Alchemy. As the Chairs of the Audit Committee and Remuneration Committee were relatively new in post, the Board was the primary focus of the 2019 evaluation, which assessed the effectiveness of both the Board collectively and individual Directors, with recommended actions for development. In 2020, Board Alchemy also conducted a formal, externally led, evaluation of the Board Committees. Board Alchemy has no other connection with the Group or individual Directors.

The evaluations concluded that the Board and Committees were well led by effective, inclusive chairs and the Board and Committee members had the requisite skills and experience to provide valuable contributions and effective challenge. At its meeting in July, the Board assessed progress in responding to the recommendations. The table on page 116 summarises the recommendations from the most recent evaluations and how we responded to them in 2021.

In 2021, the Board members participated in an internal review of performance, which was a combination of a questionnaire and meetings. A report on the evaluation was presented to the September Board meeting. The evaluation focused on matters including diversity and inclusion, particularly around measuring progress; sustainability; and succession planning. The Board considered the findings and agreed key recommendations. These included having more direct engagement with subject-matter experts; tracking and reporting on the progress of material projects using a common set of key metrics and controls; allowing more agenda time to understand the talent pipeline and succession plans for the Executive Committee and the levels below, including having direct access to such colleagues, and ongoing training in specialised areas such as trading, treasury and sustainability. Further details, including progress made during 2022, will be provided in the 2022 Committee Report.

A summary of the key recommendations from the Board and Committee evaluations, and progress made, is provided below:

Recommendations from external evaluations	Progress during 2021	
Regularly review Board composition, including non-executive and executive succession, also considering diversity at both the Board and Executive Committee.	The balance of skills and experience on the Board was discussed early in 2021 and it was agreed that the potential acquisition of Pinnacle should inform next steps. During the lead up to the AGM in April 2021, the views of shareholders were considered on addressing Board balance and diversity. Following completion of the acquisition of Pinnacle, an	external agency (Audeliss) was appointed to assist in a search. A specific aspect of the brief was to identify potential candidates who address the required combination of skills, experience and diversity. In October the Board approved the appointment of two new Non-Executive Directors. You can read more about this on page 113 above.
Make best use of the Board's time and enable non-executives to make the fullest contribution, including induction, obtaining external viewpoints in "teach-in" sessions, improvements in the quality of Board papers; better presentations by management at Board meetings.	A detailed and comprehensive induction programme was designed for the two new Non-Executive Directors who joined in October 2021. "Deep-dive" sessions on defence and preparation for UK style Sarbanes-Oxley regulations, were delivered by external experts during 2021. The quality of Board papers, including findings, recommendations and measures associated with major projects, have been addressed. Feedback from the most recent internal evaluation was that	some progress has been made. Presentations from management and business functions had also strengthened. For example, the presentations and discussions during the Board visit to Drax Power Station (including engagement with wider teams) and the presentations supporting the three-day strategy meetings in October 2021 received positive feedback on their quality.
Develop a dashboard to enable regular reporting on project progress and status to the Board, including "lessons learned" reviews at the conclusion of major projects.	Data collection and reporting to management has evolved and been shared with the Executive Committee as a pilot for roll out to the Board. We are using the experience gained from setting milestones and tracking progress in areas such as health, safety, and the environment to apply to projects across the business that have technical, engineering, construction, commercial and regulatory challenges. Proposals have been shared with the Board for developing a similar approach in aspects of the Group's sustainability strategy, and these are expected to advance in 2022.	At the Board meeting in June, the Board received a presentation from the Generation leadership on key projects, and progress in delivering the project associated with cessation of coal generation and the implementation of the "Fit for the Future" programme. The presentation used data collected from the dashboards routinely used in the Generation business. The Board welcomed the steps taken. In feedback arising from the most recent internally led evaluation, directors challenged management to strengthen the tracking and reporting on projects, as part of further improvement.
Continue work on values and behaviour and consider how the Board should get assurance that the culture it is looking for is in place.	The approach to colleague engagement – both how we communicate with and listen to our people – continued to be areas of attention. This was particularly important as we integrated new colleagues from Pinnacle into the Drax Group. In September 2021, colleagues across our operations in Canada and the US participated in our annual engagement survey and the results were discussed at the December Board meeting. Areas for improvement included developing online content and workshops to improve career development opportunities; building a suite of flexible working, and family friendly, policies to enable colleagues to work in ways that allows them to perform and support the strategy whilst reflecting their personal circumstances; providing support for both mental and physical wellbeing, including a Mental Health	First Aid pilot scheme. All this resulted in a 5% increase in colleagues reporting they felt that significant action has been taken since the last survey. The Chair and CEO regularly report on the engagement with colleagues, including updates on the meetings with the workforce engagement forums. See page 109 for more information. The bedrock of values and behaviours is having the right policies and procedures that provide a frame of reference for our people, and this was reviewed during the year, including initiatives to integrate Pinnacle policies with Drax. See pages 61 to 63 for more information.
Complete the development of an assurance map to help the Audit Committee and the Board understand the nature of assurances being received and the sources of assurance.	An assurance map for the Group was created in 2021, covering the key sources of assurance for each of the principal risks. During the second half of the year, the map was updated with Pinnacle data and re-presented to the Audit Committee and Board.	

Continue to give more focus to the external landscape and to listen to stakeholder perspectives and viewpoints.	The acquisition of Pinnacle was a key consideration for the Board concerning stakeholder engagement. You can read more about this on page 106. The Board considers a detailed review of stakeholder engagement twice a year, which for 2021 includes a detailed assessment of stakeholder views on critical areas including BECCS, biomass acceptability and the development of Cruachan (see pages 34 to 41 for more information). The CEO, the Group Director of Corporate Affairs and senior members of the Corporate Affairs Team attended COP26. They took part in a series of events and roundtable discussions, to speak about Drax and to hear views from a range of participants and stakeholders.	In June, the Board considered a separate paper addressing section 172 of the Companies Act, assessing stakeholders and how their concerns inform management thinking and areas of focus (see page 34 for more information).
The Committee Chairs should consider holding pre-meetings in advance of meetings of their committees.	The Chairs routinely met with the Company Secretary and others to discuss progress in actions and priorities. Both the Audit Committee and	Remuneration Committee routinely held meetings with members only, before the formal business commenced.
Commence planning for the next audit tender during the course of 2021 to ensure that Drax has sufficient choice when it becomes time for the tender and that potential auditors are free from conflicts of interest.	In July, the Audit Committee approved a proposal to conduct an external audit tender. You can read more about the tender process on page 128.	

Skills and knowledge of the Board

A key responsibility of the Committee is to ensure the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and delivery of the strategy. As in previous years, the Nomination Committee has reviewed the Board's composition and considered whether the:

- Board contains the right mix of skills, experience and diversity
- Board has an appropriate balance of Executive Directors and Non-Executive Directors
- Non-Executive Directors are able to commit sufficient time to the Company to discharge their responsibilities effectively

Following the review, the Committee was satisfied that the Board continued to have an appropriate mix of skills and experience, now and for the future, to operate effectively. All the Directors have many years of experience, gained from a broad range of businesses. Collectively. they bring a range of expertise and sector knowledge to Board deliberations, which encourages constructive, challenging and insightful discussions.

Renewal and re-election

Any newly appointed Director may hold office until the first AGM following their appointment, at which meeting they are required to submit themselves for election by shareholders. Accordingly, Kim Keating and Erika Peterman will offer themselves for election at the forthcoming AGM.

In accordance with the Company's articles of association, and in line with the recommendations of the Code, each of the Directors will retire annually and offer themselves for re-election by shareholders at the AGM. Accordingly, John Baxter, Philip Cox, Will Gardiner, Nicola Hodson, David Nussbaum, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM and being eligible, will offer themselves for re-election. The evaluation and review of the Board and its Committees, described above, concluded that each of the Directors offering themselves for re-election continued to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively. Further information of the service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are set out in a table on page 154. The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection (by prior arrangement) during normal business hours at the Company's registered office. They will also be available for inspection at the venue of the AGM, before that meeting, details of which are contained in the Notice of Meeting.

During the year, I met regularly with the Non-Executive Directors in the absence of the Executive Directors. Separately, the Senior Independent Director held a meeting with the Non-Executive Directors without me being present, as required by Provision 12 of the Code.

This report was reviewed and approved by the Nomination Committee.

Philip Cox CBE
Chair of the Nomination Committee
23 February 2022

Audit Committee report

We are focused on ensuring fair, balanced and understandable performance reporting is in place, underpinned by a robust system of internal control.

Vanessa Simms, Chair

Committee members

Vanessa Simms (Chair)
Nicola Hodson
David Nussbaum
Erika Peterman

The Board is satisfied that the Committee's membership has the appropriate level of independence, skills, and recent and relevant financial experience. Vanessa Simms, a chartered certified accountant, is CFO of Land Securities Group plc. David Nussbaum is a chartered accountant who has served in several senior financial roles. Details of the skills and experience of the Committee members can be found on pages 97 to 99.

Attending by invitation

Chair of the Board, CEO, CFO, Group Financial Controller, Internal auditor (KPMG), External auditor (Deloitte).

Number of meetings held in 2021: Four

In addition to the meetings mentioned in the table below, Vanessa attended several planning meetings in advance to discuss key agenda items, plan for papers and ensure that her expectations were satisfactorily reflected in the matters discussed and explained. Vanessa also held meetings with the External Audit Partner at intervals throughout the course of the year to discuss planning for work and specific areas such as engagement with the Financial Reporting Council (see page 121).

Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter[1]	17 April 2019	3	3	100%
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%
Erika Peterman[2]	21 October 2021	1	1	100%

(1) John Baxter stepped down as a member of the Committee on 1 November 2021.
(2) Erika Peterman joined the Committee on 21 October 2021.

Terms of reference

The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at www.drax.com.

Introduction

As we explain elsewhere in the Annual Report and Accounts, 2021 was a year of significant change for the Group. This included completion of the sale of our CCGT assets in January 2021 and the acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) in April 2021. In addition, the Group needed to consider the potential impact of wider macro-economic conditions on the business and how we should respond. This included understanding how the business should adapt to evolving challenges from the Covid-19 pandemic and the volatility in commodity markets that have affected consumers and some businesses.

The Audit Committee contributed to the consideration of these and other matters within our terms of reference by challenging management on areas of judgement and proposed actions. We also supported the Board in making sure it provided appropriate consideration of the required engagement with, and reporting to, stakeholders that is fair, balanced and understandable.

Maintaining effective controls

While the particular challenges associated with the immediate impact of the Covid-19 pandemic have subsided, our focus on supporting our colleagues and maintaining robust controls remains. The Board and management recognise that uncertainty and change can be disruptive and contribute to distractions that impact the effectiveness of internal controls and sound practices. With home working remaining prevalent through 2021, associated arrangements that enabled colleagues to work securely while remote from the Group's sites have persisted. This aligns with the culture and values the Board seeks to promote and where each of the Board's committees has its own part to play.

As explained on page 58, we have focused on good communication that ensures our colleagues feel enabled to work from home or, where possible, in the office in Covid-safe conditions. Such clarity is an important part of wellbeing; it enables colleagues to be at their best, being attentive to following proper working practices and vigilant to potential threats. The developing situation has brought challenges; however, the Committee has responded by being robust during its engagement with management and teams on the adequacy of systems, cyber security and wider controls. All of these elements require rigorous attention and responsiveness to the evolving risks. Following a presentation on cyber security at a Committee meeting in April, the Board held two further discussions during the year. These covered topics including

the threats from phishing, the evolution in cyber threats targeting the supply chains of companies and investment in systems resiliency. More information on the assessment of the relevant principal risk can be found below. Based on the overall body of work undertaken across the year, on which the Committee received a further report in February 2022, we are satisfied that adequate controls remain in place.

Supporting business growth – acquisition of Pinnacle

The Committee contributed to the assessment of the proposed acquisition of Pinnacle. This included considering the adequacy of management's response to the Financial Position and Prospects Procedures (FPPP) which the Board was required to approve as part of the Class 1 transaction. FPPP is one aspect of the required work associated with undertaking a Class 1 acquisition. It provides an assessment and assurance that in undertaking and then completing the transaction, the enlarged Group will be able to maintain sound internal controls and systems. These ensure that the Group is able to continue to meet its obligations as a listed company. The FPPP also formed the basis for the subsequent integration work, on which the Committee received updates in July and December. Good progress has been made, which reflects strong engagement between colleagues across our operations. We remain satisfied with the robustness of the Group's reporting procedures.

Following completion of the acquisition, the Committee met in July to consider and approve the work associated with the Half Year Report. This considered key areas of accounting judgement, and changes proposed to financial reporting, which reflected the newly enlarged Group and integration of Pinnacle. The Committee also considered EY's preliminary findings from their assessment of Purchase Price Allocation, which is an inherently complex area.

EY's work assessed how the cash consideration paid by the Group for Pinnacle (C$385 million) should be appropriately allocated to the net assets acquired. This includes the fair value of the tangible fixed assets (the Pinnacle property, plant and equipment), current assets (including inventory and trade debtors), and identified intangible fixed assets (of which the material element is the customer contracts from which Pinnacle derives its income). The difference between the total consideration and the total fair value of the identified net assets is recognised as goodwill. Based on this assessment, as reported at the half year, the goodwill arising from the Pinnacle transaction had been assessed as £166 million. More information can be found in Note 5.1 to the financial statements. The Committee challenged the evaluation as well as the underlying assumptions, paying particular attention to understanding how the goodwill would be supported by future earnings and the assessment of the expected growth in those earnings in future years.

Supporting change in the business – understanding our principal risks

The Committee separately considered and challenged management on its evaluation and proposed reporting of the Group's principal risks in light of the acquisition. An important consideration was ensuring shareholders and wider stakeholders received an adequate explanation of the risks to the Group. The shareholders and other stakeholders also need to understand how these risks might evolve, and how they align with the information provided in the Class 1 Circular.

The work on principal risks is ongoing as the integration matures and challenges emerge. For example, extreme weather patterns in North America, including British Columbia, created new challenges during the year. The Group reported these at the Half Year and in the Trading Update published in December. We are also continuing to support colleagues implementing improvements in health and safety practices, working with operational sites to identify areas for investment and strengthening the sharing of information and ideas on positive changes. The implementation of change can also be difficult and disruptive, and management recognised the challenges that this can entail. We appreciate the considerable work that colleagues across all our sites have contributed in responding to change, which has included, regrettably, the impact from the departure of valued people. These matters are also explained in our principal risk factors on pages 76 to 91.

Climate change and its impact on all businesses requires careful assessment. During 2021, we focused on strengthening our processes for climate risk identification, assessment, and management. This included considering the financial implications from a range of potential scenarios. As part of this, we also developed an asset-level physical risk assessment template, to assess in greater detail the potential physical risks to our Generation and Pellet Production assets. We established a Carbon Oversight Group (COG) to act as a Risk Management Committee, reviewing and challenging the climate change principal risk. We provide further details on these developments in our TCFD disclosure on pages 64 to 71 and principal risks disclosure on page 88.

The Committee takes a keen interest in understanding the evaluation of the Group's principal risks across all aspects, not just those pertaining to financial controls. These both augment and contribute to the Board's understanding and assessment of the risks, providing additional time for discussion and challenge.

Our people are at the very heart of the success of Drax, and their wellbeing and safety continues to be of paramount importance. As the Group develops, it is important we maintain our high standards of health and safety. We must also ensure that our policies, procedures and working practices adapt to the different activities that our colleagues and contractors undertake.

As mentioned in my report last year, and reflecting the Committee's recommendations, the Group has appointed external advisers DNV, who are recognised as industry experts in risk management. DNV's remit is to improve the robustness in the audit of Health, Safety and Environmental (HSE) matters. DNV commenced its baseline assessment during 2021, undertaking a detailed review of our processes by site across three key areas:

1. Human (looking to see if we have a learning culture)

2. Organisation (checking that management processes are aligned to best practice)

3. Technical (checking that technical controls are aligned to best practice)

DNV conducted interviews, reviewed documentation and materials, and produced assessment reports providing clarity on how we can align with standards that ensure our operations adhere to best practice in HSE. In July, DNV presented its findings to the Committee, outlining this baseline work, and identifying themes relating to opportunities for improvement. These opportunities included investment in data capture and automated reporting to improve the transparency and assessment of site-by-site performance against key performance indicators. The accountability of local leadership would also be brought into focus with such transparency and assessment in place. On page 129, you can find out more about the results of that work, DNV's recommendations and management's response, which the Committee considered further at its meeting in December.

In September 2021, we received a letter from the FRC in connection with relevant reporting requirements in our 2020 annual report and accounts. I worked with the Chair of the Board, management and our external auditor, Deloitte, in assessing the matters raised. As with all stakeholders, the feedback we have received from the FRC helps to inform how we act, including how we provide information to wider stakeholders to enable them to understand our business and performance. You can find out more about the process on page 121. In December 2021, the FRC wrote to the Group, confirming the matters identified were concluded based on our undertakings for future disclosures.

In September 2021, we announced our intention to conduct an audit tender process for the Group's external auditor. The process was overseen by the Committee and concluded in January 2022, with the Board approving the appointment of PwC as the new external auditor with effect from the 2024 financial year. A resolution proposing the appointment of PwC will be put to shareholders at the 2024 Annual General Meeting. On page 128 we provide more detail about the tender process.

Role of the Committee

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities. This includes undertaking the following:

- Monitoring the integrity of the financial statements and other information provided to shareholders
- Reviewing significant financial reporting issues and judgements contained in the financial statements
- Advising the Board on whether the Committee believes the Annual Report and Accounts are fair, balanced and understandable
- Maintaining an appropriate relationship with the Group's external auditor and reviewing the effectiveness and objectivity of the external audit process
- Maintaining and monitoring the non-audit services policy
- Reviewing the systems of internal control and risk management
- Monitoring and reviewing the effectiveness of the internal audit function
- Making recommendations to the Board (to put to shareholders for approval) regarding the appointment of the external auditor

As Chair of the Committee, I report on the Committee's activities and considerations at each Board meeting following a Committee meeting. All members of the Board receive the minutes of each Committee meeting.

In undertaking its duties, each member of the Committee has access to the services of the Chief Financial Officer and the Group Company Secretary and their resources. Committee members also have access to external professional advice. In addition, I hold meetings with the Chief Financial Officer out of cycle from the formal meetings. I also attend planning meetings with those preparing for forthcoming Committee meetings to discuss relevant papers and key matters.

The Committee allows time at each meeting to speak in the absence of management. In addition, the Committee meets both the external auditor and the internal auditor without management present. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matter giving them material concern, they should promptly draw it to the Committee's attention via the Chair of the Committee. No such issues were raised in 2021.

Committee activities in 2021

The Committee follows a programme of work designed to ensure that sound risk management processes, a robust system of internal control and fair and balanced performance reporting are in place.

The Committee undertakes its duties reflecting an annual work plan, which is agreed at the final meeting each year for the following calendar year. In addition, where appropriate to activities in the Group or to reflect changes in applicable regulations, agenda items are incorporated to ensure members of the Committee have the opportunity to consider and contribute to an analysis of material issues. The main areas of work undertaken by the Committee during 2021 at its routinely scheduled meetings are set out in the table on the following page.

February	April	July	December
Item under review			
• The 2020 year-end review of key financial and reporting matters • The 2020 Annual Report and Accounts and preliminary results announcement, including post-balance sheet disclosures in respect of the CCGT sale and Pinnacle acquisition • The internal control framework update on effectiveness of internal controls and risk management during the period • Year-end risk review, including ongoing risks and mitigations arising from Covid-19 and Brexit • Final report from Deloitte on its 2020 audit findings • Summary of internal audit reviews for the period and outstanding actions	• Management update on key financial and reporting matters • The external auditor's management letter for the 2020 audit • The internal control framework update on effectiveness of internal controls and risk management during the period • An update on the integration plan for Pinnacle including financial reporting, risk, and internal control • Review of whistleblowing management, including incidents reported and investigation outcomes • An update on internal controls and risk management of cyber security • Summary of internal audit reviews for the period and outstanding actions • The effectiveness of the 2020 external audit process • Senior Accounting Officer reporting to HMRC and Group Tax Strategy	• The 2021 interim review of key financial and reporting matters, including the impact of the CCGT sale and Pinnacle acquisition • Report from Deloitte on its 2021 Half-Year review findings • Consideration of the 2021 Half-Year report and results announcement • The internal control framework update on effectiveness of internal controls and risk management during the period • Half-year risk review, including ongoing risks and mitigations arising from Covid-19, and the impact of the Pinnacle acquisition on principal risks • An update on internal controls and risk management of sustainability, supported by an external review • An update from the Ethics and Business Conduct Committee • An update on internal controls and risk management of Environment, Health and Safety, supported by an external review • The Audit Committee's terms of reference • The Auditor Independence Policy	• Management update on key financial and reporting matters, and focus areas affecting the 2021 financial statements • Review the Group's response to the FRC's enquiries in respect of the 2020 Annual report and Accounts • Planning report from Deloitte on the 2021 audit • The internal control framework update on effectiveness of internal controls and risk management during the period • Consideration of the whistleblowing report and details of any recent incidents • An update on internal controls and risk management around financial reporting and the potential impact of new regulations • Summary of internal audit reviews for the period, outstanding actions, and the plan for 2022 • An update on the external auditor tender process • An update on the integration activities involving Pinnacle

Acquisition of Pinnacle

The acquisition and subsequent integration of Pinnacle has been a key area of focus for the Committee during 2021. Before the completion of the transaction, the Committee reviewed the assessment of accounting policy differences between Pinnacle and the existing Drax Group. The Committee also reviewed a summary of the key risks and existing risk governance framework in place at Pinnacle, and a comparison of the key controls in operation. This work underpinned the shareholder circular issued on 12 March 2021.

Following the acquisition, the Committee has been regularly updated on the integration process. It has reviewed the impact of the acquisition on the financial reporting of the Group and its principal risks. From a financial reporting perspective, the Committee particularly focused on the most subjective and complex areas. These included the Purchase Price Allocation exercise and the impact of the transaction on the overall presentation of the Group's financial statements, such as the inclusion of non-controlling interests in the Group consolidation for the first time.

Correspondence with the FRC

In September 2021, the Group received a letter from the FRC's Corporate Reporting Review team, requesting information about certain matters arising from their review of the Group's 2020 Annual Report and Accounts. The Chair of the Committee reviewed the draft responses to the FRC's enquiries in conjunction with management and Deloitte, and the proposed areas of improvement which the FRC had identified. As a result of the correspondence, the Group has sought to enhance clarity in certain disclosures in the 2021 Annual Report and Accounts, particularly in relation to rebasing (now defined in the glossary at the end of the Annual Report and Accounts) and financial instruments. The wider Committee then reviewed the commitments in detail at its meetings in December 2021 and February 2022, to ensure they were being appropriately addressed in the Annual Report and Accounts.

The FRC review was based solely on the Group's published report and financial statements and does not provide any assurance that the report and financial statements are correct in all material respects.

Reviewing the effectiveness of the system of risk management and internal controls

The Committee received updates on the Group's internal control environment and reviewed internal audit reports at each of the four meetings held during 2021. It gave particular focus to the ongoing response to Covid-19, as controls and processes implemented during 2020 became embedded into business-as-usual. It also focused on the impact of the acquisition of Pinnacle on the Group. In addition, the Committee took part in several deep-dive risk and internal control reviews covering cyber security, health and safety, and sustainability. For the latter two reviews, external parties conducted in-depth analysis of particular areas and attended Committee meetings to provide additional expertise and insight.

Alongside the expert support provided by these external parties, management also co-ordinated an internal self-assessment and review of risk management and internal control activities covering the Group's principal risks. Control owners are required to provide a quarterly assessment on the operation of key controls, and to detail any gaps or control failures identified. These responses are then reviewed by a separate internal team, and the responses regarding control operation are periodically verified.

The Committee also received regular updates on the risks and internal controls specifically around financial reporting, including the continued development of a single Group-wide financial control framework. Its aim is to bring together consistency in approach and best practice across the Group. During 2021, the Group invested in a new system solution to enable clearer ownership, reporting and approval of the operation of key financial reporting controls.

Management and the Committee are closely following the possible implications from the Government's proposed corporate governance reforms, including potential new reporting requirements on internal controls around financial reporting. Members of the Committee have attended workshops with the internal auditor and established a draft implementation plan whilst management await final confirmation of the outcome of the consultation.

The Committee review and discuss any findings or action points arising from the internal and external reviews that are performed and ensure that any improvement plans are robust and have appropriate delivery targets. None of the findings discussed during the year were individually or collectively material to the financial performance, results, operations, or controls of the business, but the Committee was updated on any findings and opportunities for improvements.

The second half of 2021 saw increased volatility in commodity markets, in particular gas and power. This volatility saw prices increase significantly, driven by concerns over supply shortages. The Committee received updates on the impact of these changes on the trading and commodity principal risk, as discussed further on page 84. It was satisfied that the mitigating actions in place were appropriate to manage the underlying risks. The oversight and management of these risks falls under the remit of the Financial Risk Management Committee (as detailed on page 103) which ultimately reports to the Board.

The Committee also reviews information arising from whistleblowing reports, as appropriate to the circumstances and matters under review. It considers the scope of any investigation and the appropriateness of the steps being taken. The Board is also updated on these reviews separately. The Committee seeks to understand how matters identified in incidents inform training for colleagues and actions by management that can improve culture within our operations. An explanation of the Group's Whistleblowing Policy can be found on page 62.

Reviewing key judgements and financial reporting matters

Explanations of all the Group's material accounting policies, critical accounting judgements, areas of significant estimation uncertainty and other material financial reporting matters are set out in the notes to the financial statements. The Committee reviewed these aspects of the financial statements, with a particular focus on the areas it deemed the most complex or subjective, as highlighted in the table below.

Description	Audit Committee review and conclusion
Acquisition of Pinnacle The Group acquired Pinnacle on 13 April 2021 for a cash consideration of C$385 million (£222 million). Refer to note 5.1 of the financial statements for more information. The application of IFRS 3 requires a fair value exercise to be undertaken to allocate the purchase price to the identifiable assets acquired and the liabilities assumed. As described on page 229, in the case of the Pinnacle transaction, fair values of property, plant and equipment were based on a depreciated replacement cost (DRC) method. This requires assumptions to be made about input costs, the condition of the assets and any potential obsolescence. In placing a value on Pinnacle's pre-existing long-term supply contracts with customers, assumptions were required regarding the potential renewal at the end of each contract's current term. In addition, an assessment of the wider biomass market was required in assessing the value of the Group's pre-existing contract with Pinnacle. The acquisition of Pinnacle also resulted in the Group adopting, for the first time, accounting policies in respect of investments in associates and joint arrangements. For more information see note 4.6 of the financial statements. The Group also had to make a policy choice about the valuation of non-controlling interests. These changes impacted the presentation of the financial statements, and in particular the income statement.	The Committee played an important role in reviewing this significant Class 1 acquisition, and in challenging management's analysis and assumptions in preparing the accounting entries and associated disclosures. This review also considered the key controls, both in the existing Group and in Pinnacle as part of the Financial Position and Prospects Procedures (FPPP). The Board was required to approve this as part of the Class 1 transaction. The Committee reviewed a detailed paper from management in July 2021, prior to the approval of the Half-Year results. In particular, the paper considered: • The approach taken in respect of valuing the property, plant and equipment • The assumption made in determining the valuation of Pinnacle's portfolio of existing customer supply contracts that no renewal periods be considered • The assessment by management that the pre-existing contractual relationship between the Group and Pinnacle was on market terms and so did not require an adjustment in the acquisition accounting Having considered and challenged management's view, particularly regarding the consideration of market terms given the illiquid nature of the biomass market, the Committee was satisfied that the approach taken was appropriate. While the new accounting policies adopted were not material to the financial statements, the Committee also considered the approach taken in respect of valuing non-controlling interests. It was satisfied that the policies adopted were consistent with the requirements of IFRS. The Committee reviewed, and agreed with, a proposal from management to remove Adjusted EBITDA from the face of the Group's income statement as a result of adopting these policies. The Committee continues to feel that Adjusted EBITDA is an important metric; however, they concluded that the revised approach was consistent with the FRC's guidance on presentation. Finally, the Committee reviewed the disclosures in the Annual Report and Accounts. The Committee concluded they were appropriate and, taken as a whole, provided a fair, balanced and understandable presentation of the transaction.

Description	Audit Committee review and conclusion
Accounting for derivative financial instruments As described more fully on page 248, the Group makes use of derivative financial instruments to manage key financial risks facing the Group. The Group's balance sheet includes significant assets and liabilities arising from these contractual arrangements that are measured at fair value by virtue of being within the scope of IFRS 9. Judgement is required around which contracts meet specific criteria and which do not (and therefore remain outside the scope of IFRS 9). In particular, a judgement is made that biomass contracts currently fall outside the scope of IFRS 9 by virtue of the current nature of the market and the contractual terms in place between counterparties. The market remains immature and there is not a readily accessible source of supply and demand at present, with trading activity limited. Where a fair value calculation is required, this typically involves a mark-to-market calculation, comparing the contractual price to prevailing market rates. While the inputs to these calculations are largely taken from observable market prices or data points, the accounting and disclosure requirements are inherently complex. The size and scope of the Group's derivative portfolio mean small errors in the valuation or disclosure process could result in a material impact on the amounts included in the financial statements. As a result, the accounting, controls, and disclosure in relation to derivative financial instruments all remain areas of focus for the Committee.	At each meeting, the Committee receives an update on any new classes of derivative financial instrument that the Group has entered into and the proposed accounting treatment. During 2021, there were no new classes of instrument that required review. In addition, ahead of each reporting date, the Committee reviewed and approved management's assessment that biomass contracts continue to fall outside the scope of IFRS 9. This involved comparing the requirements of the financial standard with the current situation in terms of observable practice and market conditions. Having completed this review, the Committee was satisfied with management's assessment. However, it also noted this is a critical judgement given the potential impact on the financial statements should biomass contracts be deemed to be inside the scope of IFRS 9. Finally, at each of its meetings, the Committee was updated on the operation of the Group's financial control framework, and the output from a rolling self-certification process. At the meeting held in December 2021, it gave particular focus to reviewing the controls in place around derivative financial instruments, and the improvements made to the control environment during 2021. These included introducing additional detailed reconciliations of closing balances and providing a more secure location for source data. Based on this review, the Committee was satisfied that the controls in place around derivative financial instruments were robust and appropriate.
Impairment of fixed assets and goodwill The Group reviews its fixed assets (or, where appropriate, groups of assets in cash-generating units (CGUs) for potential impairment. Impairment reviews are triggered by either the existence of potential indicators of impairment at a given point in time or, in the case of goodwill and other intangible assets with indefinite useful lives, are conducted at least annually. As described on page 194, following the acquisition of Pinnacle in April 2021, the Group re-assessed its CGUs in respect of the Pellet Production business and also considered the allocation of goodwill. The assessment concluded that the Pinnacle operations represented a single CGU. In addition, it was concluded that goodwill from the acquisition should be allocated to the Pellet Production segment as a whole. This is due to the synergies expected to arise, and to the lack of a non-arbitrary way to allocate goodwill between CGUs within the segment, in line with IFRS 3. The Customers business generates independent cash flows equivalent to its constituent operating entities, resulting in two CGUs – Drax Energy Solutions (formerly Haven Power) and Opus Energy. Following the sale of the CCGT portfolio in January 2021, the Generation business considers its assets that generate independent cash flows to be the four individual sites (Drax Power Station, Galloway, Lanark and Cruachan). The Group's four OCGT development assets were treated as a single CGU for impairment purposes. When an impairment review is required, the recoverable amount of the asset or CGU is assessed. This assessment is made with reference to the present value of the future cash flows expected to be derived from its value in use, or its expected fair value.	At its meeting in December 2021, the Committee reviewed management's process and initial conclusions in respect of impairment for the 2021 financial year. The Committee gave particular focus to: • The impact of the acquisition of Pinnacle on the assessment of CGUs and allocation of goodwill in the Pellet Production segment • The key assumptions made in the Customers forecast and the recovery of that business post-Covid-19 • The length of the forecasts for the purposes of impairment Having considered management's reports, and challenged the approach and key assumptions made, the Committee concluded that the approach to impairment reviews was appropriate and no impairment charges were necessary. In particular, the Committee challenged management's assessment of the allocation of goodwill from the Pinnacle acquisition. Having debated this point, the Committee concluded that the treatment was appropriate. At its meeting in February 2022, the Committee reviewed a roll-forward of the analysis from December 2021 and considered any significant impacts since that detailed analysis had been performed. The review did not indicate any material changes in the expectations from the different parts of the business, and the Committee was satisfied with management's assessment that no impairment charge was required at the Balance Sheet date.

Description	Audit Committee review and conclusion
Impairment of fixed assets and goodwill continued Assumptions that underpin the assessment of value in use for each CGU are based on the most recent Board-approved forecast. The assumptions include all the necessary costs expected to be incurred to generate the cash inflows from the relevant assets in their current state and condition. Impairment arises where management determines, and the Board concludes, that the carrying amount of an asset (or group of assets) exceeds its recoverable amount. Impairment reviews rely on assumptions and key estimates regarding future market prices, cashflow forecasts, discount rates and the use of appropriate sensitivities. You can find out more about this process and the assumptions made in note 2.4 to the financial statements.	The Committee also reviewed the impairment disclosures in the Annual Report and Accounts and concluded that the key assumptions and sensitivities had been appropriately disclosed.
Calculation and presentation of alternative performance measures As described on page 181, the Group presents Adjusted results excluding the impact of exceptional items and certain remeasurements. Adjusted results are consistent with the way Executive management and the Board review and assess the performance of the Group. The effects of exceptional items and certain remeasurements are presented separately in a column on the face of the Group's income statement. The Group has a clear policy that sets out the transactions considered as exceptional for the purpose of this presentation, and the determination of certain remeasurements. Nevertheless, the classification of transactions as exceptional and the separate presentation of certain remeasurements requires judgement. The Group also presents certain other management defined measures, known as Key Performance Indicators (KPIs) throughout the annual report and accounts, such as cash and committed facilities.	The Committee plays an important governance role in the classification and presentation of items as exceptional in the financial statements. During 2021, the Committee reviewed and approved updates to the Group's policy in respect of exceptional items, noting that the changes to the policy added further guidance and did not change the underlying principles applied. As part of the review, it was confirmed that the updated policy would not have changed the classification of exceptional items in the current or previous periods. At each Committee meeting, management presents a paper that sets out the transactions proposed to be classified as exceptional in the financial year. The Committee reviews this paper and provides formal approval at reporting dates. In 2021, the Committee challenged the exceptional classification of the ongoing costs associated with coal closure, and the costs associated with the restructuring of the Customers business. This was to ensure that they met the criteria outlined in the agreed policy and were not business-as-usual expenditure. At its meeting in February 2022, the Committee reviewed the final classification of transactions as exceptional for the 2021 financial statements. It also considered the presentation of alternative performance measures in the 2021 Annual Report and Accounts. Having considered analysis from management, and the opinion of the external auditor, the Committee was satisfied that the approach is appropriate. It was also satisfied that the Annual Report and Accounts for 2021 are fair, balanced and understandable.
Disposal of CCGT portfolio As described on page 232, the Group disposed of Drax Generation Enterprise Limited, which held its portfolio of CCGT generation assets, on 31 January 2021 for cash consideration of up to £193 million. The transaction terms include £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. As part of the accounting for the sale, a fair value of this contingent consideration is required to be calculated. As described on page 216, while this is a material number to the financial statements, management does not consider this to represent a significant judgement under IAS 1 due to the conditions associated with payment. As a result of the disposal, the Group has presented income and expenditure related to the CCGT portfolio as discontinued operations and has disclosed a profit on disposal in relation to the transaction of £9 million.	As a material disposal transaction, the sale of the CCGT portfolio to VPI Generation Limited, and associated financial reporting implications, were a key focus area for the Committee during 2021. The Committee reviewed management's approach to disposal accounting and the presentation and classification of items as discontinued operations in the 2021 income statement. Having completed this review, the Committee was satisfied that the presentation was appropriate, in accordance with relevant financial standards, and accurately reflected the substance of the transaction and its impact on the Group. In its February 2022 meeting, the Committee challenged management's assumptions regarding the fair value of the contingent consideration that remains outstanding. The Committee concluded that the valuation approach adopted by management is appropriate.

Description	Audit Committee review and conclusion
Review of other significant judgements and estimates The other areas of judgement and sources of estimation uncertainty that are significant to the financial statements are set out on page 180. Management regularly reviews these other areas to ensure they are kept up to date and that the list is complete. As part of the preparation for the 2021 Annual Report and Accounts, management considered the level of provision required for expected credit losses in the Customers business. This included consideration of whether the provision continues to represent a key source of estimation uncertainty under IAS 1. Management also considers other matters that are not necessarily significant or material to the financial statements but may be of interest or relevant to current or future developments. One such area considered in detail during 2021 was the treatment of costs associated with the BECCS project at Drax Power Station. During the year, it was deemed appropriate to commence capitalisation of certain costs associated with the project. This decision was based on an increasing level of confidence in the development of the project in the future. The impact on the 2021 financial statements was immaterial and so this does not represent a significant judgement under IAS 1. However, the impact in future years is likely to be material. This matter will be kept under review, linked to the Board's assessment of the viability and level of confidence in the potential realisation of BECCS in the future. In making such an assessment, the Board will have to make judgements based on prevailing circumstances, which may be subject to material change.	At each of its meetings the Committee reviews a paper prepared by management that summarises key financial reporting updates for the period. This paper includes a summary of significant accounting judgements and sources of material estimation uncertainty, and an update on any changes in the period. In particular, during 2021, the Committee reviewed the approach taken to calculate expected credit loss provisions. It noted the development of Covid-19 during the year and the performance of cash collection against billing. Having completed this review, the Committee was satisfied that the approach adopted was appropriate, and also concluded that the risk of a material change in the estimated carrying value of related assets within the next financial year was unlikely. As such, it was determined that this provision no longer represents a key source of estimation uncertainty under IAS 1. The Committee reviewed and approved the associated disclosure to be included in the financial statements. The Committee challenged management on its assessment that the threshold for capitalisation of certain costs associated with the BECCS project had been reached. As part of this, the Committee noted the potential impact on future years. Having reviewed the relevant criteria, and the evidence provided by management, the Committee concluded that this treatment was appropriate. The Committee also noted that this treatment would be important to highlight in the Annual Report and Accounts, despite being immaterial in 2021. Having considered the other matters raised in management's papers, the Committee was satisfied that the items disclosed as critical accounting judgements or key sources of estimation uncertainty on page 180 were appropriate. In addition, the Committee was satisfied that the descriptions accurately reflect the matters disclosed.

Reviewing the 2021 Annual Report and Accounts

At its meeting in December 2021, the Committee received reports from management on its planning for the various elements of the 2021 Annual Report and Accounts. This included a timetable for preparing drafts, and for the contributions – including peer review and commentary – being made by members of the wider management and executive teams. The Committee also discussed how such review would support the task of ensuring the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.

Between the year-end date and the date of the approval of the Annual Report and Accounts, the Committee met on 10 February 2022 to understand progress with the year-end audit process and discuss a paper from management covering key financial reporting matters, The meeting was attended by management and both the external and internal auditor. The Committee met again on 21 February 2022 principally to review both the external auditor's findings and the draft 2021 Annual Report and Accounts. The Committee also reviewed and approved the verification process undertaken by management around information included in the Annual Report and Accounts, including the level external assurance received around TCFD disclosures.

In addition, the Committee reviewed the internal controls, forecasts and relevant assumptions underpinning the Viability Statement and the ongoing adoption of the going concern basis in preparing the financial statements. This included reviewing a scenario analysis prepared by management, which was reviewed by the external auditor, and which considered the potential future impact of the Group's principal risks on its financial projections. The Committee challenged the assumptions around availability of finance and covenant compliance made in the process and considered the appropriateness of the period of assessment for viability. Following this review the Committee concluded that the assessment period should be increased from three years to five years, as discussed further in the Viability Statement on page 74. The Committee was satisfied that the proposed statement was robust, fair and balanced, and that the ongoing use of the going concern basis of preparation was appropriate.

During 2021, focus was given to the potential scenarios relating to climate change risk. As detailed on page 64 the Group has completed an analysis of various future scenarios related to climate change and the potential impact on the Group by 2030. This analysis makes considerations both from a transition risk and physical risk perspective. For the assessment of viability noted above, the period of assessment was shorter, but many of the same factors and considerations were relevant. This is discussed in further detail on page 74. In February 2022, the Committee also reviewed and discussed a paper outlining how the potential future impacts of climate change had been considered in preparation of the financial statements, covering areas such as impairment reviews and the useful economic lives of the Group's assets.

The Committee considered and reviewed management's disclosure on exceptional items and certain remeasurements, and the adjustments in the middle column of the income statement (this can be found on page 200, referring where necessary to the agreed accounting policy). This included considering the impact of the acquisition of Pinnacle on the presentation of the income statement and associated notes. It also included a review of the calculation and presentation of Alternative Performance Measures, as detailed on page 200.

Fair, balanced and understandable

As a result of the Committee's review, it advised the Board of its conclusion that the Annual Report and Accounts – taken as whole – are fair, balanced and understandable. This view is underpinned by the Committee's discussions with operating and finance management regarding the Strategic Report, and with the finance team regarding the financial statements. In addition, the Committee believes the Annual Report and Accounts provides the information necessary for shareholders to assess the Company's and Group's position and performance, business model and strategy.

Review of Committee effectiveness

In line with the FRC's Guidance on Committees, the effectiveness of the Audit Committee is periodically considered. During the autumn of 2021, an internal review was undertaken of the Board and its committees, including the Audit Committee. The review concluded that the Audit Committee continued to work well, and that there was sufficient reporting and discussion on matters such as risk, compliance, internal controls and internal audit. This review built on the externally facilitated review of the performance of the Committee in autumn 2020. That review found that the Audit Committee worked well, with an effective Chair and Committee members all providing valuable contributions and effective challenge. The review noted there is good dialogue and constructive relationships between the Audit Committee Chair, CFO and the external Audit Partner. The review also found effective planning routines are in place, ensuring there is sufficient time to consider matters in advance of decisions being required, and that the challenges of surprises or disruption can be mitigated. An externally led review will be conducted in 2022.

External audit

Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor in April 2021 and does so annually. During the year, Makhan Chahal took over from Anthony Matthews as lead Audit Partner, bringing significant listed company and sector-specific auditing experience. Makhan worked closely with Anthony to enable a smooth handover of responsibilities.

The Committee's review primarily considered the independence and objectivity of Deloitte, its professional competence and past performance. The Committee also considered the robustness of the audit process including, in particular, the level of challenge given to critical management judgements. This took account of the Committee's own discussions with the external auditor on the work performed around areas of higher audit risk. It also accounted for discussions on the basis for the auditor's conclusions on those areas, and the depth of the auditor's understanding of the Group's businesses. The review of effectiveness also incorporated feedback from members of the finance and wider management teams. The Committee sought their views on matters including the quality of work and engagement while planning and executing the audit, both at a Group and business unit level.

In addition to completing the annual review, the Committee considers the effectiveness of the external auditor throughout the year and discusses this point at each meeting. It gives particular focus to the level of challenge being given to management, and the professional scepticism being applied. During 2021, key areas where this was evident included the Purchase Price Allocation assessment related to the Pinnacle acquisition and the annual impairment review process performed by management. It was also evident in the review of an appropriate level of expected credit loss provision within the Customers business unit. The Committee is therefore satisfied with the level of ongoing challenge that the external auditor has applied.

During 2021, Deloitte's audit of the Group's 2020 financial statements was selected for review by the FRC's Audit Quality Review (AQR) team. Once the FRC's report and findings are available, they will be considered in detail and discussed with the Audit Partner. The Committee will report on this in the next Annual Report and Accounts.

Based on its overall review, the Committee is satisfied that the external auditor and its audit has continued to be effective. The Committee agreed that the external auditor's work demonstrated an ongoing commitment to audit quality, that the audit process was robust, and that Deloitte had shown strong levels of technical knowledge and had provided appropriate professional scepticism in its work.

Independence of external audit

The Group has an Auditor Independence Policy (AIP) that defines procedures and guidance under which the Company's relationship with its external auditor is governed. The AIP also facilitates the Committee being able to satisfy itself that there are no factors that may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the audit process. The Committee reviews the AIP annually and last did so in July 2021. As part of this annual review the Committee considers areas of development in best practice and guidance. The main features of the current AIP (the whole of which is available at www.drax.com) are:

- A requirement to review the quality, cost effectiveness, independence and objectivity of the external auditor
- A requirement to rotate the lead Audit Partner every five years, and processes governing the employment of former external auditor employees
- A policy governing the engagement of the auditor to conduct non-audit activities. Under this policy, the general principle is that the incumbent external audit firm undertakes no non-audit services, unless:
  - The work requires a certificate or other assurance of the Group's appointed external auditor
  - The services provided relate to an interim review or to reporting accountant activity
  - Exceptional circumstances warrant it, and only then when the Committee is satisfied the engagement of the external audit firm is justified on merits clearly articulated by management and agreed in advance by the Committee or Committee Chair.

External audit tender

Introduction

Deloitte has provided a total uninterrupted engagement of 17 years as the Group's external auditor, covering the years ending 31 December 2005 to 2021. The UK Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR) introduced a requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors at least every 20 years. The last year-end of Deloitte's permissible tenure is for the year ended 31 December 2024. On 21 September 2021 a Regulatory News Service announcement stated that Drax Group plc was holding a tender process for the role of external auditor. This process was undertaken in advance of the mandatory rotation off as the Group's external auditor by 31 December 2024.

Process

The Audit Committee has overseen the audit tender process, commencing in July 2021 with the setting of a timetable. Following this, the business appointed a project manager to support the planning and delivery of the process until its conclusion. Chairing the Review Panel, the CFO consulted with potential firms to assess their suitability.

Due consideration was given to any non-audit services provided that would need to be replaced and to the minimum time required to 'cleanse' any services provided. In addition, the 2021 FRC Audit Quality Review reports were reviewed to aid in assessing each firm's audit quality.

The Company Secretary led the governance activities and set out the Request for Information to participant firms. The Procurement Director led the commercial aspects and the definition of scorecard criteria, incorporating critical success factors. Regular communication, including access to the CFO and Audit Committee Chair, was maintained with each of the firms.

Initial assessment

Invitation to Tender letters setting out an overview of the timetable and the process were issued in September 2021 to the shortlisted firms, including all 'Big Four' audit firms (excluding Deloitte as the incumbent auditor) and two others. Following the invitation, all interested parties were invited to meetings with management and ultimately requested to submit a full proposal document.

Assessment criteria

The key focus of the evaluation and selection criteria was to appoint an audit firm that would provide the highest quality, most effective and efficient audit in future. In undertaking the tender, the selection team was mindful of choosing a firm that embodied the required professional standards, displayed technical insight, demonstrated a good understanding of the Group and its sector, fitted well with the Drax culture and values, and had an appreciation of the importance of ESG matters, in addition to capabilities in responding to the evolution of the Group.

Bid evaluation and recommendation

The initial assessment included meetings with management, submission of information to a data room and assessment of bids against the pre-defined scorecard criteria. The Audit Committee Chair was appointed as the Chair of the Selection Panel. In December 2021, an evaluation was made by the Committee with a subsequent recommendation to the Board to approve PwC as the next external auditor.

The Board met in January 2022 to assess the information and proposal provided by the Audit Committee. It was noted by the Board that PwC had met the required professional standards, demonstrated a good understanding of the Group and its sector, showed clarity of independence, and would be well placed to best serve the needs of shareholders and other external stakeholders.

The Board agreed to appoint PwC as the next Group auditor for the financial year ending 31 December 2024, subject to shareholder approval. On 28 January 2022, Drax announced that the Board had approved the proposed appointment of PwC as its external auditor to take effect from, and including, the financial year ending 31 December 2024. The appointment will be recommended to shareholders for approval at the AGM in 2024.

Subject to shareholder approval at the respective AGMs, Deloitte will continue in its role as external auditor to Drax for the financial years ending 31 December 2022 and 31 December 2023. PwC will shadow Deloitte in respect of audit for the financial year ending 31 December 2023, as part of an orderly transition.

Feedback was provided to all bid participants following the decision of the Board.

Conclusions

The Company has complied with the UK 2016 SATCAR regulations to conduct a competitive tender. In addition, the Committee considers that the audit tender process undertaken has been conducted in a fair and transparent manner, in accordance with the Notes on Best Practice by the Financial Reporting Council (February 2017).

Anthony Matthews rotated off the Group audit following the completion of the 2020 reporting cycle, at the end of a five-year period of involvement. Makhan Chahal replaced Anthony during 2021, following the review of potential replacement partners and discussion by the Committee during 2020. The decision was based upon the depth of Makhan's sector knowledge, relevant FTSE 100 and FTSE 250 signing partner experience, and experience with complex trading and hedging positions. The Committee monitors and reviews at each meeting the balance between the fees paid to the external auditor for audit and non-audit services.

The external auditor also reports to the Committee on its own processes and procedures to ensure independence, objectivity and compliance with the relevant standards.

The amounts paid to the external auditor during each of the financial years ended 31 December 2020 and 2021 for audit and other services are set out below and in note 2.3 to the financial statements (page 191).

Schedule of fees paid to Deloitte LLP	Year ended 31 December 2021 £000's	Year ended 31 December 2020 £000's
Audit fees:		
Statutory audit of Drax Group	**1,250.0**	937.0
Statutory audit of the Company's subsidiaries	**40.0**	38.0
Total audit fees:	**1,290.0**	**975.0**
Interim review	**110.0**	98.0
Other assurance services	**–**	2.0
Corporate refinancing fees	**–**	110.0
Reporting accountant fees	**469.0**	116.0
Total non-audit fees:	**579.0**	**326.0**
Total auditor's remuneration	**1,869.0**	**1,301.0**

Deloitte performed certain non-audit services during 2021. As noted on page 120, the external auditor should not provide non-audit services where it might impair their independence or objectivity. Therefore, any engagement for the provision of non-audit services requires prior approval from the Committee or Committee Chair. Agreement to allow the external audit firm to perform additional non-audit services is taken only after considering two key factors. Namely, that the non-audit services policy has been fully applied and that any engagements are in the best interests of the Group and its key stakeholders.

During the year, there was an increase in the level of non-audit services provided by Deloitte. In total, this amounted to £579,000, of which £110,000 covered the Group's Half Year review. Deloitte provided support in a limited reporting accountant role in respect of the shareholder circular for the proposed acquisition of Pinnacle. The Committee was satisfied that the overall levels of audit and non-audit fees were not of a material level relative to the income of Deloitte as a whole. The Committee was also satisfied that the level of non-audit fees was below the 70% cap, based on the average audit fee for the preceding three years.

Auditor reappointment

The Group has fully complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Committee Responsibilities) Order 2014. The Committee discussed the appointment of an external auditor at its meeting on 21 February 2022 and recommended to the Board that a resolution to reappoint Deloitte as the Group's external auditor should be put to shareholders at the AGM in April 2022.

As explained on page 128, a competitive tender process took place during 2021 to identity a successor to Deloitte.

Internal audit

As reported in the 2020 Annual Report and Accounts, the Committee assessed the best approach to sustaining high quality internal audit and risk management functions during 2020. This review determined that the internal audit and risk management functions be separated, moving to a fully outsourced internal audit model. One of the key drivers for this decision was to allow the Group to draw on particular skills, prevailing market knowledge and wider industry-relevant experience, such as IT, cyber security, trading and commodities. KPMG was selected as the new internal auditor following this review, supported by an internal team, and has now completed its first full annual programme of work.

While fees are agreed on an audit-by-audit basis depending on the scope and requirement for specialist input, they are managed within an overall annual budget. The internal auditor presents an annual plan to the Committee for approval at its final meeting of the year, which covers the elements to be delivered in the following year. This proposed programme of work is based on the assessment of the internal auditor, taking into account input from interviews with key internal stakeholders from finance, risk and wider management. The Committee reviewed the plan in detail and subsequently approved it. This review sought to ensure that priority is given to the areas of highest risk for the Group, while maintaining appropriate coverage of all key risks.

The Committee receives reports at each meeting regarding progress against the overall internal audit plan and the reviews undertaken since its last meeting. The Committee reviews the findings and agrees the recommended actions and delivery dates for improvements. Key topics reviewed by the internal auditor during 2021 included IT disaster recovery, power trading, and product development and pricing within the Customers business. In addition, the internal auditor held separate planning meetings with the Board and management to discuss the potential implications of the BEIS consultation "Restoring trust in audit and corporate governance". These sessions focused on the likely implications of the proposals, and on developing a structured approach to addressing the requirements. At each of its meetings, the Committee receives an update from the internal auditor on the latest developments in this area and discusses the planned approach to future changes.

In addition to reports from the internal auditor on their reviews completed during the period, the Committee also receives reports from management detailing progress on implementing recommendations from previous reviews. This allows the Committee to effectively monitor management's responses. The Chair of the Committee, independent of management, maintains direct contact with the internal auditor, allowing open dialogue and feedback.

Health, safety and environment

Where relevant, and agreed between the Committee and the internal auditor, additional external parties may be engaged to support with independent reviews – typically in highly specialised areas. This spans such matters as engineering practices, maintenance, process safety and training. These are integral to ensuring our colleagues are suitably enabled with the requisite knowledge and equipment to perform their work effectively and safely. The internal auditor will work with any external parties to review the scope of their work and how any key findings are subsequently being reported and managed.

As noted on page 119, the Committee reviewed and supported the appointment of a new external consultant during 2021. DNV GL Limited (DNV) was appointed to provide an assessment of the Group's Environment, Health and Safety practices. DNV undertook a detailed review of processes by site across three key areas: Human (to see if we have a learning culture); Organisation (checking that management processes are aligned to best practice); and Technical (are the technical controls aligned to best practice). DNV's initial findings were presented to the Committee in July, and regular updates are now being provided on progress against agreed actions. DNV will also highlight any further findings as their work continues.

Opportunities for improvement already identified include investment in data capture and automated reporting. This will improve the transparency and assessment of site-by-site performance against key performance indicators and the accountability of local leadership. To help action and embed the identified improvements, management are investing in a new IT system that will support the needs of the business now and in the future. The intention is to roll this solution out to all areas of the Group in Q3 2022. In both the Generation and Pellet Production operations, management has already commenced work to implement new integrated management systems that will be underpinned by this tool. It will replace burdensome manual tasks and allow for several existing systems to be decommissioned.

Effectiveness of internal audit

The Committee has considered the overall effectiveness of the approach to internal audit and is satisfied. This is based on the quality of the overall plan and the information provided in reporting. In particular, the Committee considered the effectiveness of KPMG, having completed its first full year as the Group's main internal auditor, and are satisfied with the quality, experience and expertise provided in their reviews.

This report was reviewed and approved by the Audit Committee.

Vanessa Simms
Chair of the Audit Committee
23 February 2022

Remuneration Committee report

Nicola Hodson, Chair

The Group delivered strong financial performance in 2021 and made great strides in delivering on its key strategic objectives. The remuneration outcomes for the Executive Directors and senior management appropriately reflect this.

Committee members

John Baxter
Philip Cox
Kim Keating
Vanessa Simms

Attending by invitation

CEO, Chief People Officer, Head of Reward and external remuneration advisers. The Group Company Secretary is the Secretary to the Committee.

Number of meetings held in 2021: Three

In addition to the below, Nicola attended a number of planning meetings to consider key agenda items, planning for papers and ensuring the expectations of Nicola were satisfactorily reflected in the matters discussed and explained.

Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	3	3	100%
Philip Cox	22 April 2015	3	3	100%
Kim Keating[1]	21 October 2021	1	0	0%
Nicola Hodson	12 January 2018	3	3	100%
David Nussbaum[2]	1 August 2017	3	3	100%
Vanessa Simms	19 June 2018	3	3	100%

(1) Kim Keating joined the Committee on 21 October 2021 and was unable to attend the meeting in December 2021 due to a pre-existing commitment.
(2) David Nussbaum stepped down as a member of the Committee on 31 December 2021.

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code.

Terms of reference

The Committee regularly reviews its terms of reference, and the Board also then reviews these terms. The most recent review was in July 2021. The terms of reference are available on the Group's website at www.drax.com/governance

Role of the Remuneration Committee

The principal responsibilities of the Remuneration Committee (the Committee) are to:

- Keep under review the implementation of the Directors' Remuneration Policy
- Determine the remuneration strategy and framework for the Executive Directors and senior management, ensuring that executive remuneration is aligned to the Group's purpose, values and strategy
- Determine, within that framework, the individual remuneration packages for the Executive Directors and senior management
- Approve the design of annual and long-term incentive arrangements for Executive Directors and senior management, including agreeing targets and payments under such arrangements
- Determine and agree the general terms and conditions of service and the specific terms for any individual within the remit of the Committee, either on recruitment or on termination
- Determine the policy for, and scope of, executive pension arrangements
- Oversee any major changes in employee remuneration throughout the Group, ensuring there is a consistency with the culture and values of Drax

Key Remuneration Committee activities in 2021

- Reviewed and provided input to management's proposals on remuneration matters pertaining to legacy Pinnacle colleagues
- Considered and approved the remuneration of Executive Directors and senior management
- Reviewed the salary increases and aggregate bonuses paid in all businesses and corporate functions
- Considered and approved the Committee's Annual Report on Remuneration for 2020
- Reviewed and considered the Group's gender pay disclosures

Annual Statement to Shareholders

Dear shareholders,

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the 2021 financial year. In April 2021, our shareholders approved the Annual Report on Remuneration for 2020, with over 99% of votes cast in favour. The Committee and I are grateful to our shareholders for their support.

The report is set out in the sections listed below. New to this year we have included a table which provides a summary of the remuneration arrangements of Executive Directors and the wider workforce, and commentary on the extent to which there is appropriate alignment, which is a core principle for the Committee, and commentary on key features of the Policy in relation to provisions of the Corporate Governance Code. We hope that this additional information and its presentation helps shareholders understand the application of the Policy.

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As noted throughout the annual report, 2021 was a strong year. The Group has delivered impressive financial performance in 2021 whilst also making progress on the Group's key strategic objectives including the acquisition of Pinnacle, the disposal of the thermal assets and advancing our plan to close our coal assets in September 2022, whilst developing options on BECCS.

Covid-19 still impacted the health, safety and wellbeing of our colleagues in 2021, particularly the first half of the year. Management maintained its view that pay stability and security of our workforce, many of whom are key workers, is of primary importance. To this end, our policies intended to provide continuity of pay for those who were unable to work due to illness or had caring responsibilities, as well as our commitment not to furlough or make redundancies as a result of Covid-19 continued in 2021. From September 2021 our pay policies reverted to our regular sick pay policies.

The Committee firmly believe that remuneration outcomes should be fair and appropriate with respect to business performance and consistent across the wider workforce, and has assessed remuneration outcomes for 2021 in line with these principles.

Review of decisions made during 2021

Annual assessment of performance

The Committee determines the remuneration of the Executive Directors and members of the Executive Committee against the strategic objectives and priorities of the Group. For 2021, we achieved this through considering performance against a combination of strategic, business and financial metrics. The Group Scorecard reflects these metrics, and you can see details on page 150.

A high proportion of total remuneration is delivered through variable pay, rewarding the achievement of a balance of Group short-term and long-term targets.

The 2021 Group Scorecard included metrics reflecting key objectives for all major business areas, including Pellet Production, Generation and Customers, as well as metrics reflecting progress on strategic objectives and people, sustainability and reputation. The performance in the Pellet Production and Generation businesses was strong in 2021 and the Customers business bounced back well in 2021 from the difficult year it had in 2020 due to the impact of Covid-19. The detailed review of achievement against the performance metrics in the 2021 Group Scorecard is on page 150.

The Committee determined that the overall performance outcome against the Group Scorecard represents a fair reflection of the business and financial performance during 2021 with the level of payout commensurate with the shareholder experience over this period and that of our employees. The Committee did not exercise any discretion in its determination for bonus outturn. The outcome of the Group Scorecard was 1.61 and this score results in 80.50% of the maximum annual bonus being paid to Executive Directors, of which, and in line with our Policy, 40% will be deferred into shares and 60% will be paid in cash in March 2022.

This score also forms part of the performance assessment for the Performance Share Plan awards granted in March 2019. Further details are provided below.

Long-term assessment of performance

Awards which were granted in 2019 under the Performance Share Plan (PSP) were subject to performance criteria under the Policy approved by shareholders in 2018. Vesting for such awards was over the three-year period from 1 January 2019 to 31 December 2021 and was based on two measures. These were Relative Total Shareholder Return (TSR), accounting for 50% of the award, and the three-year average of the Group Scorecard, which accounted for the remaining 50% of the award. TSR over the period was between median and upper quartile, leading to 90.90% vesting for this element. The average Group Scorecard outcome over the same period was 1.14 leading to 63.67% vesting for this element. The overall vesting outcome for the 2019 PSP awards is therefore 77.28% of the maximum. A chart showing TSR performance relative to the FTSE 350 can be found on page 155.

The Committee determined that the vesting outcome was appropriate in the context of performance over the three year performance period and therefore no exercise of discretion was applied to the overall vesting. Drax's share price at 31 December 2021 was 61% higher than the start of the performance period. Given the averaging periods over which TSR has been calculated, this equates to a return of 54% based on the six month averaging period prior to the start and end of the performance period. These returns represent a strong result for our shareholders.

Base salary review

For the 2021 pay review, all Executive Directors were given an increase in base salary of 2%. This took effect in April 2021 and was in line with increases applied to the wider workforce.

Will Gardiner was appointed to the role of CEO on 31 December 2017 and Andy Skelton was appointed to the role of CFO on 2 January 2019. Consistent with our Directors' Remuneration Policy (Policy), the base pay for both our Executive Directors was set at what the Committee considered to be an appropriate level on appointment in the context of the business at the time and the pay of comparable peers.

Under the leadership of the Executive Directors, Drax has made strong progress in delivering on its strategic aims. They have implemented the closure of our coal assets, sold our CCGT gas assets, in addition to evolving the business model and opportunities for growth, which has included the acquisition of pellet producer Pinnacle. That acquisition, combined with progress being made on bioenergy with carbon capture and storage (BECCS), creates the platform for a long-term sustainable business. As a result, during their tenure, opportunities for Drax extend well beyond the end of the present UK subsidy regime in 2027, with operations that combine the generation of power in the UK, with long-term contracts for supply of sustainable biomass to third parties in Europe and Asia well into the 2030's. Moreover, through the ongoing investment in technology, Drax has the potential to deliver flexible renewable power combined with carbon capture which places the Group at the forefront in contributing positively to the growing demands of climate change for the UK and overseas.

The Committee undertook a review of Executive Director salaries in late autumn in the context of these changes to the business, supported by external market data. The following factors were considered:

- The fundamental shape of the business has changed, the business has become more complex, with an extended global footprint, combined with the imperative of ongoing effective engagement with key stakeholders in the UK and overseas
- Drax has delivered strong performance under the leadership of the Executive Directors, delivering stable earnings, good operational performance and continued attention to the safety and welfare of our employees through challenging times
- Drax's Total Shareholder Return to 31 December 2021 was 173% from the date of Will's appointment and 95% from the date of Andy's appointment. This compares to the Total Shareholder Return of the FTSE 350 index over the same period of 14% since Will's appointment and 26% since Andy's appointment.

After careful consideration, the Committee determined that it was appropriate to apply adjustments to the base salaries of the Executive Directors to reflect the changes to the business. Accordingly, it was agreed to increase the base pay of Will Gardiner by 6.6% from £572,409 to £610,000 and for Andy Skelton by 4% from £372,963 to £388,000, effective from 1 January 2022. The resulting salaries position the Executive Directors at the median of similar roles within the FTSE 250.

The increases reflect a balanced approach to attracting and retaining talent and are consistent with our Policy, with adjustments to base pay to reflect performance and realisation of key goals following appointment. Will and Andy are a key part of the management team which has been instrumental in delivering significant change, and we recognise the importance of them staying at Drax to deliver on the opportunities which the Committee believes to be in the interests of all our of stakeholders. The Committee remains committed to implementing appropriate reward structures, in line with our Policy, reflecting informed assessment of wider market and stakeholder considerations.

In addition to these adjustments to reflect the size and complexity of the roles and the business, Executive Directors will be eligible for the normal annual salary increase. Therefore, with effect from April 2022, an increase of 4.5% will be made as part of the annual pay review process, in line with the average base increase for the wider workforce. Effective from 1 April 2022, the base pay of Will Gardiner will increase from £610,000 to £637,500 and Andy Skelton from £388,000 to £405,500.

Annual Bonus

The basis of performance for the annual bonus will be performance against the metrics in the 2022 Scorecard. This will apply to all colleagues which participate in the plan, including the Executive Directors. More information on the new and evolving metrics in the 2022 Scorecard are provided on pages 30 and 31.

LTIP

It is intended that the 2022 LTIP grant is made on the normal timetable at the end of March 2022. For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with the upper quartile. The targets for the EPS element have not been determined but will be announced prior to the AGM by release of RNS.

Pension

Under the Policy approved in April 2020, any new Executive Director joining Drax would receive a pension contribution (or cash payment in lieu of pension contribution) that is consistent with those of new joiners to the wider workforce (which is currently 10% of base salary). Existing Executive Directors will retain their current pension contribution until 31 December 2022, which is 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, these contribution rates will reduce to 10% or the equivalent to that of new joiners at that time.

Pinnacle integration

On 13 April 2021 Drax completed the acquisition of Pinnacle Renewable Energy Inc. From this date Drax welcomed new colleagues based in Canada and the US. Careful consideration was given by management and the Committee to ensure that Pinnacle colleagues smoothly transitioned to the respective remuneration and broader HR policies of the Drax Group. Management intend to introduce an all-employee share plan for colleagues in Canada and the US. This would allow our colleagues in these territories to use part of their regular earnings to save towards the purchase of shares in Drax. We intend to submit the share plan rules for shareholder approval at the AGM in 2022. A more detailed explanation on the proposed plan can be found in the Notice of the Annual General Meeting, which is also available on our website. The plan will complement the existing employee Share Save plan which we currently operate for eligible employees in the UK.

Workforce engagement

I believe that engagement with stakeholders is extremely important in both informing the decisions of the Committee and in communicating how the Committee conducts its work and reaches key decisions. I am pleased to say we have a variety of channels to colleagues.

There were four MyVoice Forum meetings with the respective Chairs and Will Gardiner and Philip Cox which took place in 2021. In addition, each business area had their own forums, and most business areas each had four meetings in 2021.

At these meetings a variety of matters on remuneration were discussed and feedback they provided has influenced our decision making. For example, one of the feedback themes was further improving communication of variable pay plans. The CEO sent various emails to all colleagues throughout 2021 clarifying the metrics in the 2021 Scorecard and with updates on performance on each during the year. This was important as the Scorecard serves as the basis of determining the annual bonus award for colleagues at all levels.

In this report we have clarified what remuneration elements are in place for Executive Directors and all employee groups across the organisation, highlighting the instances where there is difference (please see page 135).

Finally, every year we conduct an all-employee engagement survey where we assess the findings and address them through specific and targeted actions plans. In 2021 the engagement survey score directly influenced management's bonus as it was a metric in the 2021 Scorecard.

Shareholder engagement

Drax engages with shareholders on executive pay in advance of a new Policy and any material changes to the implementation of the existing Policy. As such, Drax did not directly engage with shareholders on executive pay during 2021. We did however solicit views from some shareholders on the existing construct of the Scorecard with respect to metrics for the 2022 financial year.

In 2022 the Committee will complete a full review of the current Policy. This will involve meeting a number of shareholders to get their valuable feedback on the current Policy which we will take into consideration. On conclusion of this review, we will develop proposed revisions and will look to engage our largest shareholders to explain these proposed revisions.

Summary

Along with the other members of the Committee, I am proud of the Group's performance in 2021 and I am satisfied that the 2021 remuneration outcomes for the Executive Directors and senior management fairly reflect the performance of the Group. Drax has undergone significant change during 2021 and during that period has grown the business, its global reach and returns to shareholders. Employees across all levels have responded well to this change and the outcome, on performance related pay in which they share, recognises that contribution.

These outcomes we believe also provide a fair and consistent approach to remuneration across the Group and remain in shareholders' interests. I hope that having read this report you will vote in support of the Annual Report on Remuneration for 2021 at the AGM on 27 April 2022.

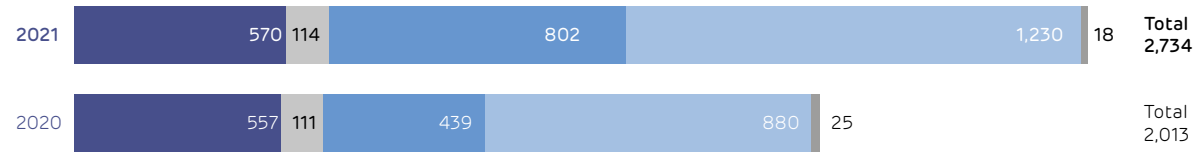
Remuneration at a glance

This section provides a summary of the remuneration earned by each of the Executive Directors in 2021. Further detail is outlined in the Annual Report on Remuneration which starts on page 148.

Total remuneration

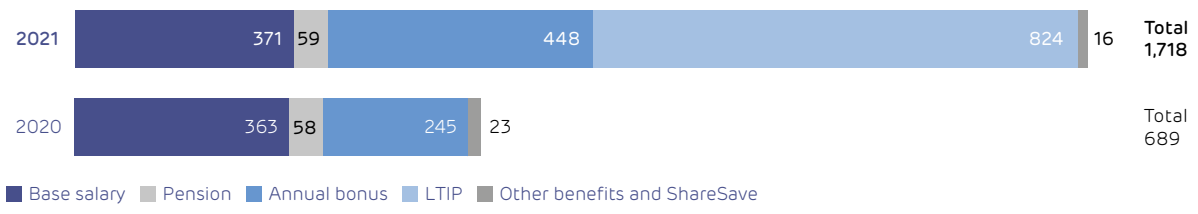
Will Gardiner (CEO) £000s

Will was in office for the full year.



Andy Skelton (CFO) £000s

Andy was in office for the full year.



Implementation of the Policy in 2021

Below is a summary of the key features of our Directors' Remuneration Policy (Policy), which was approved by shareholders at the AGM in 2020 and so became effective from that meeting. There is also a summary of how the Committee applied the Policy in 2021.

Element	Key features of the Policy (adopted in 2020)	Implementation of the Policy in 2021
Base salary	• The Committee targets market level, as determined by reference to appropriate comparator companies selected with consideration for factors such as sector, size and international presence. • An Executive Director in post at the start of the Policy period, and who remains in the same role throughout the Policy period, would normally receive an increase in line with the average annual percentage increase in base salary of all other employees in the Group. The exceptions to this are where an Executive Director has been appointed at below market level to reflect experience and where an Executive Director has been promoted internally (or the scope of their role has changed) and their base salary is below market level.	• For the pay increases made in April 2021, all Executive Directors received an increase in base salary of 2%. These increases were in line with increases applied to the wider workforce. • In December's meeting the Committee agreed to increase the base pay of Will Gardiner by 6.6% and Andy Skelton by 4%, effective 1 January 2022. The detailed rationale for that is provided on page 132 and it is noted that it is consistent with the approach outlined in the Policy on page 137.
Pension and other benefits	• An Executive Director is entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension, or a combination of pension contribution and cash in lieu of pension. • Until 31 December 2022, the pension contribution rates for existing Executive Directors are 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, the contribution rates will reduce and will be aligned to those of new joiners (which is currently 10%). • Other benefits provided as appropriate.	• The employer pension contribution in 2021 for Will Gardiner was 20% of base salary, and it was 16% for Andy Skelton. Will Gardiner's employer contribution is delivered as cash in lieu, whereas for Andy Skelton it is delivered part as pension contribution and part as cash in lieu. • Other benefits received included a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover.
Annual bonus	• The maximum opportunity is 175% of base salary for Will Gardiner and 150% for Andy Skelton. • 60% of the bonus award is measured on financial metrics and 40% on strategic metrics. • Bonus earned for the strategic metrics is deferred, but total bonus outcome is subject to a minimum of a 40% deferral. The portion of bonus which is deferred into shares is subject to a three-year vesting period and which must be retained for a further two years. In the event an Executive Director leaves the Company prior to the end of the vesting period (other than as a "good leaver"), the deferred shares will forfeit. • Clawback and malus provisions apply.	• The 2021 annual bonus outcome as percentage of maximum opportunity was 80.50%, of which 70.19% was based on performance against financial metrics and 29.81% against strategic metrics. • In line with the Policy, 40% of the overall bonus award will be deferred into shares under the Deferred Share Plan.
Long-term incentive	• For awards made under the LTIP, which was introduced in 2020, the maximum award level is 200% of base salary for Will Gardiner and 175% for Andy Skelton. • Vesting is subject to long-term performance conditions, measured over a three-year performance period. • Shares must be retained for a further two years from vesting. • Clawback and malus provisions apply.	• The 2021 LTIP award is measured on the three-year performance period to 31 December 2023, based on Total Shareholder Return (TSR) relative to the FTSE 350, which has a 50% weighting, and Cumulative Adjusted Earnings Per Share (EPS), which also has a 50% weighting. • The 2019 PSP (granted under the provisions of the 2018 Remuneration Policy) will vest at 77.28% of the maximum and was based on the performance of TSR relative to FTSE 350 (50% weighting) and the average Group Scorecard outcome of the preceding three performance years (50% weighting). More information on the outturn can be found on page 151.
Shareholding requirement	• The requirement is 250% of base salary for Will Gardiner and 200% for other Executive Directors. • A post-cessation shareholding requirement, equal to the employment shareholding requirement, applies for a two-year period after cessation. Only shares for awards granted after the 2020 AGM are included.	• Will Gardiner has met the shareholding requirement, with a shareholding at the 31 December 2021, equivalent to 735% of base salary, which includes 296,760 shares he acquired in the open market. • Andy Skelton has also met the shareholding requirement, with a shareholding at 31 December 2021, equivalent to 301% of base salary, which includes 142,976 shares he acquired in the open market.

Alignment of Remuneration of Executive Directors and Wider Workforce

As noted in the table on the previous page, many aspects of the remuneration for Executive Directors are also applicable to the wider workforce, such as basis of the annual bonus award through the scorecard, and pension, and benefits entitlements. Below is a summary of the remuneration arrangements of the whole workforce, including Executive Directors, Executive and Senior Management and the wider workforce. In this table specific areas of remuneration which are not highlighted are aligned across all colleagues, and those highlighted in blue are not. Immediately below is a key to help interpret the content in the table.

Key

- Aligned across workforce
- Unique to a specific colleague group

Remuneration element		Executive Directors[1]	Executive Leadership and Senior Management[2]	Wider workforce[3]
Salary	**Approach**	To target the appropriate market rate, as determined by comparisons with appropriate companies.		
	Increases	Keep pay for colleagues consistent with market rate and inflation; salary increases for Executive Directors will generally be in line with those for the rest of the workforce.		
Pension	**New hires**	All UK colleagues have the option to participate in the Group's defined contribution pension plan, with company contribution rate of up to 10% of salary. Some colleagues choose to take a cash payment in lieu of their pension, or a combination of pension contribution and cash in lieu of a contribution. The 2021 employer contribution rates for the CEO and CFO were 20% of base salary and 16% of base salary respectively. From 1 January 2023, their contribution rates will align with the rate for new joiners (currently 10% of salary).		
Benefits	**Health and wellbeing**	All colleagues receive medical cover and access to an annual private health assessment or a local equivalent arrangement.		
	Risk and protection	All colleagues have company-funded life assurance and income protection, or a local equivalent arrangement, unless they're covered under alternative collective bargaining arrangements.		
	Car benefit	£12,000	Not applicable Some colleagues have a car as job requirement	Not applicable Some colleagues have a car as job requirement
Bonus	**Eligibility**	All colleagues are eligible to take part in the annual bonus programme, unless they participate in an incentive programme specific to their role (e.g. a commission plan). The bonus award is designed as a reward for the delivery of targets and objectives important to the financial and strategic performance of the Group detailed in a scorecard.		
	Metrics	Bonus awards are conditional on achieving the scorecard, which combines financial and strategic measures. These measures are the same for all colleagues, so there's Group-wide consistency.		
	Deferral	Bonus earned for the strategic measures is deferred into shares, and the overall bonus is subject to a minimum of a 40% deferral. The bonus deferral shares are subject to a three-year vesting and must then be retained for a further two years post-vesting.	Not applicable, no deferral	Not applicable, no deferral
Long-term incentive plan (LTIP)	**Eligibility**	Discretionary annual grant of shares, under the LTIP, to colleagues where vesting experience is aligned to the long-term shareholder experience.	Discretionary annual grant of shares, under the LTIP, to colleagues where vesting experience is aligned to the long-term shareholder experience.	One Drax Awards are a discretionary grant of share awards to recognise performance and to aid retention of key talent below Executive Leadership and Senior Management level.
	Metrics	For awards made under the LTIP, vesting is subject to long-term performance conditions, measured over a three-year performance period.	For awards made under the LTIP, vesting is typically subject to long-term performance conditions, measured over a three-year performance period.	No performance conditions for One Drax Awards
	Shareholding requirement	Requirements of 250% and 200% of salary for the CEO and CFO respectively. A post-cessation shareholding requirement, equal to the employment sharing requirement, applies for a two-year period after cessation for awards granted since 2020.	Not applicable	Not applicable
All-colleague plans (Sharesave)		All UK colleagues have the option to buy shares in Drax at a discounted price (after a three-year or five-year saving period elapses). Our intention is to introduce an all-colleague share plan for colleagues in the US and Canada.		

Notes:
(1) Executive Directors comprises of the CEO and CFO.
(2) Executive Leadership and Senior Management comprises all colleagues in the three most senior grades, excluding CEO and CFO.
(3) Wider workforce comprises all colleagues in grades below the three most senior grades at Drax.

Corporate Governance Code

The principal aims of our Directors' Remuneration Policy is to ensure that executive pay is closely linked to Group performance, underpins our purpose of enabling a zero-carbon, lower cost energy future; better aligns reward with delivering the strategy; incorporates targets that reflect the Group's progress, and are relevant and transparent for the wider workforce and our shareholders.

The Remuneration Committee last undertook a full review of the Directors' Remuneration Policy in 2020, taking into account the Group's strategy, shareholder feedback and the new provisions in the Corporate Governance Code at that time. The Remuneration Committee will undertake a further review of the existing Directors' Remuneration Policy during 2022 with any proposed changes put to shareholder approval in 2023.

The table below sets out how the existing Directors' Remuneration Policy specifically addresses the provisions of the Corporate Governance Code.

Our purpose is embedded in the core principles of our new remuneration policy

Making sure that executive remuneration is closely linked to the performance of the Company	Simplicity and focus in the design and application of our executive remuneration programmes	Incentives earned for the delivery of stretching corporate, financial, strategic and operational targets	Attracting and retaining the right talent through market-aligned incentive opportunity	Aligning executive reward with shareholder value, over the longer term, through the Long-Term Incentive Plan

Our remuneration policy is aligned with the provisions of the 2018 Corporate Governance Code

Clarity

- Alignment between the delivery of strategic goals and remuneration outcomes
- Remuneration which rewards growth in shareholder value over the medium to longer-term
- Performance related elements, relevant for the Group as a whole, creating alignment across the wider workforce in delivering financial, operational and strategic imperatives

Simplicity

- Annual Bonus: a simple Scorecard structure focusing on a small number of financial, strategic and ESG metrics, which provides clarity, focus and ease of understanding
- The vesting of the long-term incentive plan (LTIP) is conditional in part on cumulative adjusted EPS, which reflects the capability to deliver more stable earnings, and total shareholder return, which ensures strong alignment with the shareholder experience

Risk

- A significant proportion of remuneration linked to the longer-term performance of the Group
- A significant shareholding requirement for Executive Directors during and post employment
- Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances

Predictability

- Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Directors' Remuneration Policy

Proportionality

- Performance measures are linked to the Company's strategy and aligned with long-term creation of value for shareholders
- Stretching targets ensure that payments are only made for strong corporate performance
- The Committee has discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance

Alignment to culture

- Bonus measures for all employees, including Executive Directors, are the same so that all employees are focused collectively on, and rewarded for, the delivery of financial and strategic goals and the Company's purpose
- The annual bonus for 2022 contains measures related to environmental, sustainability and people which underpin the Company's values and business strategy

Directors' Remuneration Policy – approved by shareholders in 2020

The current Directors' Remuneration Policy (Policy) was approved by our shareholders at the AGM held on 22 April 2020 and became effective from that date. It will be binding until the close of the 2023 AGM, unless varied by shareholders at a General Meeting prior to then. The Policy is set out in full in this section. For reference, the scenario charts have been updated to reflect fixed pay expectations for 2022 and the impact on the annual bonus and LTIP awards.

Base salary

Base salary helps to attract, reward and retain the right calibre of Executive Director to deliver the leadership and management needed to execute the Group's strategy and business plan.

Practical operation

Base salary reflects the role, the executive's skills and experience, and market level. To determine the market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators. The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account factors such as, but not limited to, sector, size, and international presence.

On appointment, an Executive Director's base salary is set at the market level, or below if the executive is not fully experienced at this level. Where base salary on appointment is below market level to reflect experience, it will be increased over time to align with the market level, subject to performance.

Base salaries of all Executive Directors are generally reviewed once each year, with increases applying from April. Reviews cover individual performance, experience, development in the role, market comparisons and pay reviews for the wider workforce.

Maximum potential value

The base salaries of Executive Directors in post at the start of the policy period, and who remain in the same role throughout the policy period, will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group.

Exceptions to this, subject to performance and development, are where:

(i) An Executive Director has been appointed at below market level to reflect experience. Under this scenario, increases will be capped at 5% above the average annual percentage increase in salaries of all other Group employees.

(ii) An Executive Director has been promoted internally (or the scope or nature of their role has changed) and their salary is below market level. Under this scenario, increases will not be capped and the Committee can increase base salary to the market level within an appropriate timeframe.

Annual bonus

The award of annual bonus will be based on annual performance against financial and operational measures linked to the business plan. The aim of the deferred portion of the annual bonus is to further align executives to shareholders' interests, by linking share-based reward to long-term sustainable performance.

Practical operation

The maximum opportunity will be split between two elements:

Financial element – performance is based on financial and operational metrics. This element represents 105% of salary for the CEO and 90% of salary for other Executive Directors. Subject to the minimum level of deferral noted below, this element will be paid in cash.

Strategic element – performance is based on strategic and other non-financial metrics. This element will represent 70% of salary for the CEO and 60% of salary for other Executive Directors. This element will be paid in shares deferred for a period of three years.

A minimum of 40% of the total bonus outcome will be deferred into shares in the form of nil cost options under the Deferred Share Plan (DSP), regardless of the pay outcomes of the financial and strategic elements. If this amount is not attained by the strategic element, a portion of the financial element will also be deferred into shares in order to achieve this minimum level of deferral.

A two-year holding period applies to DSP awards post-vesting, during which Executive Directors may not sell the shares, except to pay any tax due.

Dividends or dividend equivalents (which may assume notional reinvestment) are paid on DSP awards.

There is no payment for below threshold performance. The outcome for threshold performance is 0% of maximum. The outcome for target performance is 50% of maximum.

In certain circumstances, the Committee can apply malus and clawback to cash bonus awards.

Targets, outcomes and resulting payouts are published in the Annual Report on Remuneration.

The Committee will review the formulaic outcome of the bonus award and has the discretion to amend the final outcome to make sure that bonus payments reflect overall performance. The use of such discretion will be explained fully in the relevant Annual Report on Remuneration.

Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	175%
Other Executive Directors	150%

Performance measures

The performance conditions applicable to the annual bonus awards are split between the two elements:

Financial element – performance measures based on annual financial and operational targets, which will be linked directly to the performance of the Group and determined by the Board. The Committee may amend the measures used each year in line with business strategy.

Strategic element – performance measures based on non-financial and strategic targets, which will be determined annually by the Board and will be aligned with the business strategy.

The weighting of the respective elements is 60% on financial elements and 40% on strategic elements. The Committee has the discretion to vary the weightings from year to year.

In exceptional circumstances such that the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the year.

Long Term Incentive Plan (LTIP)

The Group's LTIP provides long-term alignment with shareholders based on the outcomes of Relative Total Shareholder Return (TSR) and Cumulative Adjusted Earnings Per Share (EPS).

Practical operation

Under the LTIP, Executive Directors may at the discretion of the Committee receive an annual grant of shares.

Shares vest on the third anniversary of the grant, subject to continued service or in exceptional circumstances earlier subject to specified "good leaver" termination provisions, and the achievement of performance conditions over a three-year period determined by the Committee. Vested awards are then subject to a further holding period of two years for Executive Directors.

Dividends or dividend equivalents (which may assume notional reinvestment) may be paid on LTIP awards.

There is no payment for below threshold performance. The outcome for threshold performance is 25% of maximum.

The Committee will include an override provision in each grant under the LTIP. This will give the Committee discretion to determine that no vesting shall occur, or that vesting shall be reduced, if there are circumstances (relating to the Group's overall performance or otherwise) which make vesting when calculated by reference to the performance conditions alone inappropriate.

In certain circumstances, the Committee can apply malus or clawback to unvested/vested awards, as set out in the notes to the policy table.

The Committee reserves discretion to:

(i) amend the performance conditions/targets attached to outstanding awards granted under this Policy, in the event of a major corporate event or significant change in economic circumstances, or a change in accounting standards having a material impact on outcomes; and

(ii) adjust the vesting of LTIP awards and/or the number of shares underlying unvested LTIP awards, on the occurrence of a corporate event or other reorganisation. In the event of a change of control, the treatment of long-term incentives will be determined in accordance with the plan rules.

Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	200%
Other Executive Directors	175%

In exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts.

Performance measures

Two performance measures apply to LTIP awards and they are as follows:

(i) TSR performance over three years relative to the FTSE 350 (50% of award), vesting as follows:

Below Median = 0% of maximum
Median = 25% of maximum
Upper Quartile = 100% of maximum

(ii) Cumulative Adjusted EPS performance over three years, (50% of award), vesting as follows:

Below Threshold = 0% of maximum
Threshold = 25% of maximum
Maximum = 100% of maximum

Straight line vesting occurs between performance levels for both conditions.

Pension

Pension provision is one of the components to attract, reward and retain the right calibre of executive, to ensure delivery of the leadership and management needed to execute the Group's purpose and strategy.

Practical operation

Executive Directors are entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension (subject to normal statutory deductions), or a combination of pension contributions and cash in lieu of pension.

Maximum potential value

Existing Executive Directors will receive the following pension contribution rates until 31 December 2022.

- CEO – 20% of salary
- CFO – 16% of salary

From 1 January 2023, the contribution rates for existing Executive Directors will be aligned with the rate for new joiners to the wider workforce (currently 10% of salary).

The pension contribution rate for any new Executive Director will be aligned with the wider workforce rate from the date of appointment.

Performance measures

No performance measures apply.

Benefits

Benefits are provided to be market competitive as an integral part of Executive Directors' total remuneration.

Practical operation

Executive Directors receive a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover. Additional benefits may be provided if the Committee considers them appropriate.

Relocation expenses are paid, where appropriate, in individual cases. Executive Directors' relocation expenses are determined on a case-by-case basis. The Policy is designed to assist the Executive Director to relocate to a home of similar standing.

Maximum potential value

Benefits are set at a level appropriate to the individual's role and circumstances.

The maximum opportunity will depend on the type of benefit and cost of its provision, which will vary according to the market and individual circumstances.

Performance measures

No performance measures apply.

Shareholding requirement

The shareholding requirement aligns the interests of Executive Directors with shareholders.

Practical operation

The shareholding requirement for the CEO is 250% of salary and for the other Executive Directors is 200% of salary. This is to be achieved within a period five years after the date of the 2020 AGM (or after the date of appointment for new Executive Directors if this is later) from vested shares derived from awards under the Company's share plans.

Until this level is reached, Executive Directors who receive shares by virtue of any share plan award or who receive DSP awards are expected to retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Shares which have not vested and are subject to performance conditions will not count towards the requirement. Unvested awards subject to service only (e.g. DSP awards) will count towards the guideline on a net of tax basis.

Shares vesting in respect of awards granted after the 2020 AGM will be held in the Group's Employee Benefit Trust until the shareholding requirement is met and all share disposals will be subject to the Company's share dealing code.

Maximum potential value

N/A

Performance measures

N/A

Post cessation shareholding requirement

The Group's post-cessation shareholding requirement aligns the interests of Executive Directors with shareholders over the longer term beyond their departure from the Group.

Practical operation

A post-cessation shareholding requirement, equal to the employment shareholding requirement (or the shareholding on departure if lower) applies for a two year period after cessation of employment. For clarity, the post-cessation shareholding requirement is 250% of salary for the CEO and for the other Executive Directors is 200% of salary. In addition, shares vesting during this period will remain subject to the two-year post-vesting holding period, which may therefore extend beyond the two-year period for which the post-cessation shareholding requirement applies.

Only shares relating to awards which are granted after the date of the 2020 AGM will be included for the purposes of this requirement. Shares purchased by the Executive Director (including those from all employee share plans), will not be included.

Shares counting towards this requirement will not be released from the Employee Benefit Trust during the period in which the post-cessation shareholding requirement applies, to support enforceability. Acceptance of the post-cessation shareholding requirement will be a condition of participation in all share awards granted after the 2020 AGM and will be included in the grant documentation for awards.

Both Will Gardiner and Andy Skelton have entered into such an agreement.

Maximum potential value

N/A

Performance measures

N/A

Performance measures and approach to setting targets

The measures for elements of variable pay will be:

- In respect of the annual bonus plan, financial, strategic and operational measures consisting of targets set by the Committee each year in conjunction with the Board. The targets are aligned with key business goals determined at the start of each year
- In respect of shares granted under the LTIP from April 2020, a combination of:
  - Relative TSR, which aligns Executive Director remuneration with creation of long-term shareholder value;
  - Cumulative Adjusted EPS, which aligns Executive Director remuneration with the realisation of our earnings growth plans, which is a major determinant of shareholder value.
- The Committee sets targets for the performance measures each year, taking into account market conditions, the business plan and other circumstances as appropriate. A summary of the measures that apply for the following year are disclosed in the Annual Report on Remuneration.

Elements of previous policy that will continue

Remuneration component and link to strategy	Practical operation	Performance measures
Performance Share Plan awards made in 2019 link long-term share-based incentives to TSR and to the achievement of Business Plan strategic targets.	Vesting is subject to achievement of performance conditions and continued service or "good leaver" termination provisions. Further details of the terms were included in the relevant Annual Report on Remuneration at the time of grant.	Vesting of conditional awards is subject to relative TSR performance and average Group Scorecard outcome over three years.
DSP awards made in 2019 and 2020 until they vest three years later or lapse, as applicable.	Vesting is subject to continued service or "good leaver" termination provisions. Further details of the terms of the awards were included in the relevant Annual Report on Remuneration at the time of grant.	N/A

Circumstances in which malus or clawback may apply

Malus and clawback for the annual bonus – the Committee may reduce the performance outcome, or may require an Executive Director to repay any amount of cash bonus it considers appropriate, in circumstances of:

- material financial misstatement;
- fraud or misconduct;
- material failure of risk management and corporate failure;
- if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information; and,
- in other circumstances that the Committee considers justifying the operation of the clawback provision.

The clawback period is two years from the date a bonus is paid. If a repayment of bonus is required, the Committee may reduce the number of shares that may vest under the DSP or LTIP arrangements by an appropriate amount.

The Committee may also reduce the number of shares, or clawback shares for a two-year period commencing on vesting under an LTIP and/or DSP awards in circumstances of:

- material financial misstatement;
- fraud or misconduct;
- material failure of risk management and corporate failure;
- if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information; and,
- in other circumstances that the Committee considers justifying the operation of these provisions.

If a repayment of a share award is required, the Committee may reduce the number of shares that may vest under the DSP or LTIP arrangements, and/or may reduce the amount of any annual bonus by an appropriate amount.

Committee's judgement and discretion

In addition to assessing and making judgements on the meeting of performance targets and the appropriate incentives payable, the Committee has certain operational discretions it can exercise in relation to Executive Directors' remuneration. These include, but are not limited to:

- reviewing the formulaic outcome of the cash bonus, DSP and LTIP awards and applying discretion to amend the final outcomes, to ensure that the outcomes reflect overall performance or an individual executive's performance;
- deciding whether to apply malus or clawback to an award; and,
- determining whether a leaver is a "good leaver".

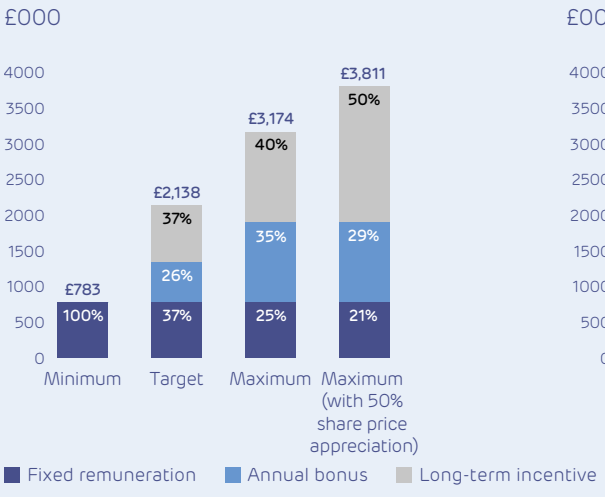
Where such discretion is exercised, it will be explained in the relevant Annual Report on Remuneration.

Remuneration scenarios

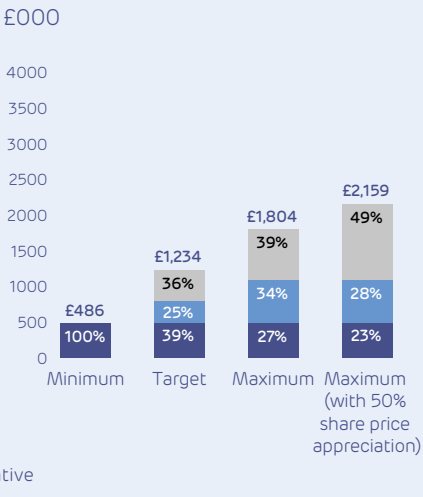
The composition and value of the Executive Directors' remuneration packages at below threshold (minimum), target and maximum performance scenarios under the Drax Group Policy are set out in the charts below. The assumptions used in the charts are provided in the following table:

Description	Fixed remuneration	Annual bonus	Long term incentive
Minimum	Base salary is the rate payable as determined by the Board following the annual review. Benefits and pension entitlement remain as disclosed in the Policy.	None	None
Target		50% of the maximum opportunity.	62.5% vesting (midpoint between threshold and maximum).
Maximum		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with no allowance for share price appreciation or dividend equivalents.
Maximum (with 50% share price appreciation)		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with allowance for 50% share price appreciation over the three-year performance period and no allowance for dividend equivalents.

Will Gardiner (CEO)



Andy Skelton (CFO)



Approach to recruitment remuneration

The Committee will apply the components of this Policy to determine the remuneration of newly appointed Executive Directors. Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance. The incentive provision for a new Executive Director will include an annual bonus of up to 150% of salary, or 175% of salary for the CEO, with financial and strategic elements as set out in the Policy table above, and an LTIP award of up to 175% of salary, or 200% of salary for the CEO (in exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts but in such circumstances it would be capped at 300% of salary).

The Committee may also determine it appropriate to honour prevailing contract commitments for an individual in the event they are promoted to an Executive Director position.

In relation to Executive Directors appointed from outside the Group, where the Committee considers it to be necessary to secure the appointment of the Executive Director, the Committee may:

- pay compensation for loss of benefits on resignation from a previous employer, such as loss of long-term share incentives (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the Group's right to claw back any amount which is subsequently paid to the Executive Director by the former employer, and to claw back an appropriate proportion of the payment if the Executive Director leaves soon after appointment). Any compensation made will not exceed the value of the benefits lost as determined by the Committee acting fairly and reasonably;
- agree a rate for employer pensions contributions, or salary supplements in lieu of pension contribution, which reflects the contribution rate for the wider workforce at the date of appointment; and,
- make appropriate payments in circumstances where an Executive Director is relocated from outside the UK.

Service agreements and termination

Executive Directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' notice. They are available for inspection at the Group's registered office.

Element	Details
Notice periods	Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period. Under each of the Executive Directors' service agreements, the Group has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the Executive Director during the contractual notice period. For the avoidance of any doubt this excludes any performance bonus (or cash equivalent) for the relevant period of unworked notice.
Compensation for loss of office	If an Executive Director's employment is brought to an end by either party, and if the Committee considers that it is necessary to pay the Executive Director a termination payment, the Committee's policy, in the absence of a breach of the service agreement by the Executive Director, is to determine an Executive Director's termination payment in accordance with his/her service agreement. The termination payment will be calculated based on the value of base salary and contractual benefits that would have accrued to the Executive Director during the contractual notice period. The Committee will seek mitigation to reduce the amount of any termination payment to a leaving Executive Director when appropriate to do so, having regard to the circumstances and the law governing the agreement. It may, for example, be appropriate to consider mitigation if the Executive Director has secured another job at a similar level. Mitigation would not apply retrospectively to a contractual payment in lieu of notice. In addition, the Executive Director may be entitled to a payment in respect of his/her statutory rights. The Group may pay reasonable fees for a departing Executive Director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Group's rights following termination. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.

Element	Details
Treatment of annual bonus on termination	All bonus payments are discretionary. The Committee will consider whether a departing Executive Director should receive a cash bonus and deferred share award in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed at the date of termination. The Committee will take into account performance; the reason for termination; cooperation with succession; any breach of goodwill; adherence to contractual obligations/restrictions; and any other factors which they believe should be taken into account. The service contract for Will Gardiner as CEO, does not entitle him to any payment of bonus on termination of employment. If the employment ends in any of the following circumstances, the Executive Director will be treated as a "good leaver" and the Executive Director will be eligible for an annual bonus: • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Group; and, • death. If the termination is for any other reason, an award will be at the Committee's discretion and it is the Committee's policy to ensure that any such award properly reflects the departing Executive Director's performance and behaviour towards the Group. Therefore the amount of any such award will be determined, taking into account (i) the Executive Director's personal performance and behaviour towards the Group and (ii) the Group's performance. If an award is made, it will normally be paid/granted as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the award to be made earlier, for example, on termination due to ill-health, in which case, on-target performance shall be assumed.
Treatment of unvested long-term incentive and deferred share awards on termination	The Committee will consider the extent to which deferred and conditional share awards held by the Executive Director under the DSP and LTIP should lapse or vest. Any determination by the Committee will be in accordance with the rules of the relevant plan. In summary, the rules of the LTIP provide that awards will vest (pro-rated to the date of employment termination) if employment ends for any of the following reasons ("long-term good leaver reasons"): • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Company; • death; and, • change of control. If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so, it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards; and other relevant factors, including the proximity of the award to its maturity date. Awards which vest subject to satisfaction of performance conditions, will be time pro-rated, and will ordinarily vest on the normal vesting date subject to the post-vesting shareholding period. The rules of the DSP provide that deferred bonus awards will vest (in full) if employment ends for any of the good leaver reasons detailed above. If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards, and a range of other relevant factors, including the proximity of the award to its maturity date. The rules of the DSP and LTIP also provide that in circumstances where awards vest, they do so at the normal vesting date, unless the Committee exercises discretion to vest awards earlier.
Outside appointments	Executive Directors may accept external Board appointments, subject to the Chair's approval. Normally only one appointment to a listed company would be approved. Fees may be retained by the Executive Director.

Consideration of circumstances for leavers

The Committee will consider whether the overall value of any benefits accruing to a leaving Executive Director is fair and appropriate, taking account of all relevant circumstances. Examples of circumstances in which the Committee may be minded to award a cash bonus, DSP award and/or permit the vesting of LTIP and/or DSP awards include:

- the Executive Director's continued good performance up to and following the giving of notice; and,
- the Executive Director accommodating the Company in the timing of his/her departure and handover arrangements.

Conversely, the Committee may be minded not to allow such payments if the reason for the departure is (for example) due to poor performance or if the Executive Director does not continue to perform appropriately following notice.

Remuneration of Non-Executive Directors and Chair

Remuneration component and link to strategy	Practical operation	Maximum potential value
Fees To attract a Chair and independent Non-Executive Directors who, together with the Executive Directors, form a Board with a broad range of skills and experience.	The Chair's remuneration is determined by the Committee whilst that of the other Non-Executive Directors is determined by the Chair and the Executive Directors. These are determined in the light of: • fees of the Chair and Non-Executive Directors of other listed companies selected for comparator purposes, on the same basis as for Executive Directors; • the responsibilities and time commitment; and, • the need to attract and retain individuals with the necessary skills and experience. Non-Executive Directors' fees are reviewed periodically against market comparators. Non-Executive Directors receive an annual base fee. Additional annual fees are paid: • to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee); • to the Chair of the Audit Committee; • to the Chair of the Remuneration Committee; and, • to the Chair of any other committee (this is not paid to the Chair of the Nomination Committee if he or she is also the Chair of the Board). Non-Executive Directors are not entitled to participate in any performance related remuneration arrangements.	Overall aggregate fees paid to all Non-Executive Directors will remain within the limit as stated in the Company's Articles (currently £1,000,000).
Expenses	Reasonable travel and accommodation expenses are reimbursed as applicable.	

Non-Executive Directors do not receive any benefits in kind, nor are they eligible for any annual performance bonus, pension or any of the Group's share-based reward plans.

The Chair's notice period is six months whilst the other Non-Executive Directors have a notice period of one month. Further information on the service agreements of the Non-Executive Directors can be found on page 154 of the Annual Report & Accounts 2021.

Differences between the policy and that of the remuneration of employees generally

The following differences apply between the remuneration of Executive Directors and the policy on the remuneration of employees generally:

- Executive Directors and a number of senior employees are eligible for LTIP awards, although there are differences in the quantum of the grants that are made;
- annual bonus levels vary across the workforce, but deferral of bonuses into DSP awards applies only to Executive Directors;
- employees in the collective bargaining unit have a contractual right to receive an annual bonus, subject to the Group's performance and continued employment, whereas Executive Directors and all other UK-based employees participate in a discretionary bonus plan;
- employer pension contribution (or salary supplement) are up to 10% of salary for new joiners from 1 July 2019, irrespective of seniority. There are legacy pension contribution arrangements which continue to be in operation for employees who joined prior to 1 July 2019. From 1 January 2023 the contribution rates for existing Executive Directors will be aligned with the rate for new joiners to the wider workforce (currently 10% of salary); and,
- in some cases hourly paid employees qualify for overtime payments.

Context

Wider employee population

In determining Executive Director remuneration, the Committee also takes into account the level of general pay increases within the Group. Employees are not directly consulted on the Policy, but there are a number of existing channels designed to capture the views of the workforce on remuneration, including the MyVoice forums.

The Committee's policy is that annual salary increases for Executive Directors should not exceed the average annual salary increase for the wider employee population unless there is a particular reason for a higher increase, such as a change in the nature or scope of responsibilities or if an Executive Director has been appointed at a salary below market level reflecting experience in the role.

The Committee also considers external market benchmarking to inform executive remuneration decisions. External market benchmarking is also considered in relation to remuneration decisions of the wider workforce.

Environmental, social and governance issues

The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of Executive Directors. Specific measures can be included in the strategic element of the annual bonus. The Committee is also able to consider these issues in determining whether to exercise its discretion to adjust formulaic outcomes of the annual bonus and LTIP.

Annual Report on Remuneration

The relevant sections of this Report have been audited as required by the Regulations and, in accordance with the Regulations, this part of the report will be subject to an advisory vote by shareholders at the AGM to be held on 27 April 2022.

Single total figure of remuneration – Executive Directors (audited information)

The table below sets out the single figure of remuneration and the breakdown for each Executive Director for the financial year to 31 December 2021, together with comparative earnings for 2020:

Director	Year	Salary[1] (£000)	Benefits[2] (£000)	Bonus[3] (£000)	Long Term Incentives (£000)	Pension (£000)	Other (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2021	570	18	802	1,230[4]	114	–	2,734	702	2,032
	2020	557	18	439	880[5]	111	7[6]	2,013	687	1,326
Andy Skelton[7]	2021	371	16	448	824[4]	59	–	1,718	446	1,272
	2020	363	16	245	–	58	7[6]	689	437	253

Notes:

(1) Base salary is the amount earned in 2021 and in 2020.

(2) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.

(3) Bonus is the value of the award from the 2020 and 2021 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continued service. 53% of the overall bonus earned for 2020 was deferred and 40% of the overall bonus earned for 2021 will be deferred.

(4) Represents the value of the 2019 PSP award which should vest in March 2022, together with the dividend equivalent shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2021, which was £5.549. The value of the award attributable to share price appreciation for Will Gardiner is £398,494 and for Andy Skelton is £266,913. This is based on the growth in the value of the shares due to vest (including dividend equivalent shares) from the grant share price (£3.751) to the average share price over the last quarter of 2021.

(5) 2020 numbers (for the 2018 PSP award) are restated to reflect the actual share price on vesting of £3.656 on 8 March 2021.

(6) Represents the value of the Sharesave Awards granted in 2020. The value in the table is based on the share price on grant £1.588 less the exercise price of £1.271. Note, no Sharesave Awards were made in 2021 as both Will Gardiner and Andy Skelton had maximum contributions under contract.

(7) Andy Skelton joined on 2 January 2019. He was therefore not granted an award under the 2018 PSP and so had no LTIP vesting in relation to the 2020 single figure.

Base salaries – Executive Directors

The base salaries of the Executive Directors as at 31 December 2021, together with comparative figures as at 31 December 2020, are shown in the following table:

Director	Base salary at 31 December 2021 (£000)	Base salary at 31 December 2020 (£000)	Percentage increase (1 April 2021)
Will Gardiner	572	561	2.0%
Andy Skelton	373	366	2.0%

The base salaries of Will Gardiner and Andy Skelton were reviewed with effect from 1 April 2021 in line with the Policy and increased by 2%. This was aligned with the average increase for the wider workforce. As noted earlier in the report, Will Gardiner and Andy Skelton received a base pay increase effective 1 January 2022 of 6.6% and 4% respectively. The rationale for these increases are provided on page 132.

Single total figure of remuneration – Non-Executive Directors (audited information)

The fees for the Chairman and Non-Executive Directors were reviewed at the start of 2021 and were subsequently increased by 2% with effect from 1 January 2021. This was aligned with the average increase for the wider workforce in 2021. For completeness, the table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2021 together with comparative figures for 2020.

Director	Year	Base fee (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Philip Cox	2021	255	–	–	255
	2020	250	–	–	250
John Baxter	2021	56	–	–	56
	2020	55	–	–	55
Nicola Hodson	2021	56	–	10	66
	2020	55	–	10	65
Kim Keating[1]	2021	11	–	–	11
	2020	–	–	–	–
David Nussbaum[2]	2021	56	10	–	66
	2020	55	10	–	65
Erika Peterman[3]	2021	11	–	–	11
	2020	–	–	–	–
Vanessa Simms	2021	56	–	10	66
	2020	55	–	10	65

Notes:
(1) Kim Keating joined the Board on 21 October 2021. Her base fee was in line with the fee structure in the Directors' Remuneration Policy. It was paid in Canadian dollars, being her local currency, using an exchange rate at the time of payment. The exchange rate used to convert her base fee to Canadian dollars was £1 = C$1.722.
(2) Since 1 January 2019 David Nussbaum has donated his gross fees to charity.
(3) Erika Peterman joined the Board on 21 October 2021. Her base fee was in line with the fee structure in the Directors' Remuneration Policy. It was paid in US dollars, being her local currency, using an exchange rate at the time of payment. The exchange rate used to convert her base fee to US dollars was £1=$1.371.

Annual fees – Non-Executive Directors

The annual fee structure for the Non-Executive Directors for 2021 is shown in the following table. As noted previously, the fees were increased by 2% on 1 January 2021. The fee structure prior to this increase is also provided in the following table for reference.

Director	Fees at 31 December 2021 (£)	Fees at 31 December 2020 (£)	Percentage increase (1 January 2021)
Chair	255,000	250,000	2%
Non-Executive Director base fee	56,100	55,000	2%
Senior Independent Director	10,200	10,000	2%
Audit Committee Chair	10,200	10,000	2%
Remuneration Committee Chair	10,200	10,000	2%
Nomination Committee Chair[1]	7,650	7,500	2%

Notes:
(1) This is not paid if the Chair of the Nomination Committee is also Chair of the Board. No fee was paid in 2021.

Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2021 Group Scorecard is set out in the following table:

Key Performance Indicator	Weighting	Low target (0% of max earned)	Target (50% of max earned)	Stretch target (100% of max earned)	Outturn	Score (out of 2)	Weighted Score (out of 2)
Financial							
Group Adjusted EBITDA (£m)	40%	301.5	335.0	368.5	373	2.00	
Leverage (£m)	20%	(1,176)	(1,069)	(962)	(1,002)	1.63	1.13
Strategic							
Strategic Projects – BECCS Advancement	10%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Strategic Project – Pinnacle Integration	5%	Partially Achieved	Achieved	Strongly Achieved	Achieved	1.00	
Pinnacle Sustainability	6.7%	Partially Achieved	Achieved	Strongly Achieved	Achieved	1.00	
People	6.7%	77	80	83	79	0.67	
Reputation	6.7%	25	30	35	34	1.80	
Pinnacle Financial	5%	ND	ND	ND	ND	0.00	0.48
	100%						1.61

Overall bonus outcome (total bonus award)	1.61 (80.50% of maximum)
Proportion of total bonus award earned for Financial KPIs	70.19% (1.13/1.61)
Proportion of total bonus award earned for Strategic KPIs	29.81% (0.48/1.61)

The targets were aligned with the Group's strategy and 2021 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance. No adjustment to the performance targets was made. Outlined below is a brief synopsis of the Key Performance Indicators (KPIs) used and their strategic rationale.

- Group Adjusted EBITDA (excluding Pinnacle's contribution) – was our principal financial metric, combining the underlying performance of each business to give a Group outcome. Group Adjusted EBITDA for 2021 was £373 million relative to a target and budget of £335 million (score of 2.00). Management is extremely pleased with the financial performance. The outturn of this metric was part of the Group's independent financial audit.
- Leverage (Average Net Debt) – a progressive and sustainable structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year. Average net debt was (£1,002) million, and thereby marginally falling short of the stretch target of (£962) million (score of 1.63).
- Progress on Strategic Projects – progress on key projects is of critical importance for Drax in progressing the Group's strategy. There were two projects which were included in this metric. The first was the integration of Pinnacle into the Drax organisation structure with focus on activities leading to a successful transaction close, the ongoing organisation of the business and adoption of Drax processes and standards. This work has been a key focus for many employees across the Group in 2021 and we are pleased to report that significant progress has been made in line with all key targets which were set (score of 1.00). The second was progress on advancing our BECCS strategy. Substantial progress was made in 2021 against the objectives set, across all critical path activities of our BECCS strategy (score of 2.00). Further information on the performance of BECCS is detailed on pages 2 and 16 of the Annual Report. The choice of projects, and assessment of performance of them in 2021 was subject to the Committee's scrutiny and approval.
- People, reputation, and sustainability practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. In 2021 the assessment of our sustainable business practice was focused on progress on the adoption of Drax Group Sustainability practices by the newly acquired business (score of 1.00). This is combined with an independent rating of how well we engage and support our employees measured through the all-employee engagement survey, administered by a leading and globally recognised management consultancy who presented results and insights to the Board in December 2021 (score of 0.67), and an independent rating of our reputation measured through a separate external agency tracking reputation on a quarterly basis and where the results are rolled up to an annual performance score (score of 1.80).

The Committee completed an in-depth review of the score for each of the performance measures, and in aggregate, to ensure that the result was appropriate individually and in aggregate. The Committee felt that the outcomes were reflective of the Group's strong financial and strategic performance, as well as wider employee and shareholder experiences. No discretion was exercised by the Committee in determining the bonus outcome. The Committee approved the Group Scorecard result for 2021 at a meeting held on 22 February 2022, subject to the final approval of the financial results and Annual Report and Accounts by the Directors on 23 February 2022.

Bonus earned for 2021 (audited information)

The table below sets out the bonuses earned for the 2021 financial year and the split between cash and deferred elements.

Director	Max bonus opportunity (as % base salary)	Total bonus outcome (as % of maximum)	Total bonus outcome (as % base salary)	Total bonus outcome (£000)	60% paid in cash (£000)	40% deferred in shares (£000)
Will Gardiner	175%	80.50%	140.88%	802	481	321
Andy Skelton	150%	80.50%	120.75%	448	269	179

A minimum of 40% of the total bonus award must be deferred into shares for three years, regardless of the outcomes of the financial and strategic KPIs. If this amount is not attained by the strategic KPIs a portion of the bonus earned with respect to the financial KPIs is also deferred into shares to achieve the minimum level of deferral. As a result, 40% of the total bonus award for 2021 for the Executive Directors will be deferred into shares for a period of three years and the remaining 60% will be paid in cash in March 2022. The deferral element will in ordinary circumstances vest in March 2025, subject to the Executive Director being employed by Drax at that time. If the Executive Director leaves, other than as a "good leaver", the deferral element will be forfeited.

PSP incentive outcomes (audited information)

The vesting outcome for awards granted in 2019 under the Performance Share Plan (PSP), which were subject to performance conditions over the three-year period from 1 January 2019 to 31 December 2021 and will vest in March 2022 is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting	Vesting at threshold performance	Performance for 50% vesting (Scorecard only)	Performance for maximum vesting	Actual performance	Vesting (% of max)
Relative TSR vs FTSE 350 constituents	50%	Median	25%	-	Upper quartile	Between median and upper quartile (rank of 89 out of 315)	90.90%
Average Corporate Score for 2019, 2020 and 2021	50%	Average score of 0.75	0%	Average score of 1.0	Average score of 1.5	1.14 (scores 0.90, 0.90 and 1.61)	63.67%
							77.28%

The Committee considered the Group's overall performance for 2021 and felt that this appropriately reflected in the Relative TSR outcome and the three-year average Scorecard outcome. No discretion was therefore exercised by the Committee in determining the 2019 PSP outcome. The table provides the awards due to vest based on this vesting result.

Director	Awards Granted (as % of base salary)	Awards granted	Awards vesting (as % of base salary)	Awards vesting	Dividend shares earned	Total shares due to vest	Total value (£000)[1]
Will Gardiner	175%	247,245	216%	191,071	30,561	221,632	1,230
Andy Skelton	175%	165,607	222%	127,981	20,469	148,450	824

Notes:

(1) Represents the value of the 2019 PSP award which should vest in March 2022, together with the dividend shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2021, which was £5.549. The value of the award attributable to share price appreciation for Will Gardiner is £398,494 and for Andy Skelton is £266,913. This is based on the growth in value of the shares due to vest (including dividend shares) from the grant share price (£3.751) to the average share price over the quarter of 2021 (£5.549).

LTIP awards granted in 2021 (audited information)

The table below shows the conditional awards granted under the LTIP to Executive Directors on 1 April 2021.

Director	Award granted (as % of salary)	Number of shares granted[1]	Face value of awards granted (£000)
Will Gardiner	200%	266,650	1,145
Andy Skelton	175%	152,022	653

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £4.293. In accordance with the LTIP rules, dividend shares are awarded at the time and in the event that awards actually vest. No dividend shares are awarded where the initial awards lapse.

The performance conditions that apply to the LTIP awards granted in 2021 are set out below.

Performance Condition	Weighting	Performance for threshold vesting	Vesting at threshold performance	Performance for maximum vesting	Vesting at maximum performance
Relative TSR vs FTSE 350 constituents	50%	Median	25%	Upper Quartile	100%
Cumulative Adjusted EPS	50%	104.9p	25%	128.2p	100%

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2023.

DSP awards granted in 2021 (audited information)

The table below shows the deferred conditional share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 1 April 2021 in respect of bonus earned for performance in the financial year ending 31 December 2020. These shares will vest on 1 April 2024.

Director	Value of deferred bonus (£000)	Number of shares granted[1]
Will Gardiner	234	54,498
Andy Skelton	131	30,441

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £4.293. In accordance with the DSP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Sharesave options granted in 2021 (audited information)

No grants of Sharesave options were made to Will Gardiner or Andy Skelton in 2021. Both have ongoing Sharesave contracts to the maximum permitted monthly savings.

Pension entitlements for defined contribution schemes (audited information)

Executive Directors are entitled to receive a contribution to the Group's defined contribution pension plan, cash in lieu of pension contributions or a mixture of these. The employer contribution for Will Gardiner in 2021 was 20% of base salary. The employer contribution for Andy Skelton was 16%. Will Gardiner's employer contribution is delivered as cash in lieu of pension, whereas for Andy Skelton it is delivered in part as contributions to Group pension plan and part as cash in lieu. No Executive Director was a member of a defined benefit pension scheme.

Payments to former directors (audited information)

Andy Koss, who was a former Executive Director, stood down from the Board on 7 April 2020 and his employment was terminated on the grounds of redundancy on 30 June 2020. He was entitled to pro-rata vesting of a PSP award made in 2018. A total of 108,236 shares (equivalent to £395,711 based on the share price of £3.656 at vesting) vested in March 2021, including dividend shares, based on performance vesting of 57.2% of maximum, as outlined in last year's report. Of this, 50,810 shares were sold to cover tax and the balance of 57,426 shares are subject to a two-year holding period and will be held in trust on his behalf and eligible for release in March 2023.

Payments for loss of office (audited information)

There were no payments in 2021 to former Directors with respect to loss of office.

Statement of Directors' shareholding and share interests (audited information)

The shareholding guidelines under the current Directors' Remuneration Policy require Executive Directors who receive shares by virtue of share plan awards, or who receive deferred bonus share awards under the DSP, to retain 50% of the shares received net (i.e. after income tax and national insurance contributions) until the value held is equal to at least 250% of salary for the CEO and 200% of salary for other Executive Directors. Only shares that are not subject to performance conditions count towards the shareholding requirement (shares owned by the Director and unvested awards subject to service only – DSP awards – on a net of tax basis).

As at 31 December 2021, the shareholding guidelines were as detailed in the table below:

Directors' interests in shares

Director	Number of shares[1]	Value at year end[2]	Shareholding (as % of base salary)	Shareholding guideline[3]
Will Gardiner[4]	695,372	£4,207,001	735%	250%
Andy Skelton[5]	185,602	£1,122,892	301%	200%

Notes:
(1) The number of shares also includes shares purchased in the open market by the Executive Director and those acquired through participation in Sharesave programmes.
(2) Based on the mid-market quotation on 31 December 2021 of £6.05.
(3) Under the existing Directors' Remuneration Policy.
(4) The total figure includes 602,286 shares owned plus 93,086 unvested DSP shares on a net of tax basis (296,760 shares were purchased by Will Gardiner in the open market between 2015 and 2021).
(5) The total figure includes 142,976 shares owned plus 42,626 unvested DSP shares on a net of tax basis (142,976 shares were purchased by Andy Skelton in the open market between 2019 and 2021).

Directors' interests under share plans

Director	Date of grant	As at 1 January 2021	Awards made during the year	Number of shares vesting during the year	Number of shares lapsing during the year	As at 31 December 2021	Date of vesting[1]	Value of awards[2]
Will Gardiner								
2018 DSP	5 March 2018	40,327	0	40,327	0	0	5 March 2021	£0
2018 PSP	5 March 2018	363,725	0	208,050	155,675	0	5 March 2021	£0
2019 DSP	28 March 2019	38,941	0	0	0	38,941	28 March 2022	£235,593
2019 PSP	28 March 2019	247,245	0	0	0	247,245	28 March 2022	£1,495,832
2020 DSP	30 March 2020	82,195	0	0	0	82,195	30 March 2023	£497,280
2020 LTIP	7 May 2020	562,506	0	0	0	562,506	7 May 2023	£3,403,161
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£112,799
2021 DSP	1 April 2021	0	54,498	0	0	54,498	1 April 2024	£329,713
2021 LTIP	1 April 2021	0	266,650	0	0	266,650	1 April 2024	£1,613,233
Total		**1,358,542**	**321,148**	**248,377**	**155,675**	**1,275,638**		**£7,687,611**
Andy Skelton								
2019 PSP	28 March 2019	165,607	0	0	0	165,607	28 March 2022	£1,001,922
2020 DSP	30 March 2020	49,985	0	0	0	49,985	30 March 2023	£302,409
2020 LTIP	7 May 2020	320,697	0	0	0	320,697	7 May 2023	£1,940,217
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£112,799
2021 DSP	1 April 2021	0	30,441	0	0	30,441	1 April 2024	£184,168
2021 LTIP	1 April 2021	0	152,022	0	0	152,022	1 April 2024	£919,733
Total		**559,892**	**182,463**	**0**	**0**	**742,355**		**£4,461,248**

Notes:
(1) The vesting date shown reflects the three-year anniversary, but the Committee reserves the right to change the vesting date by a period not exceeding 30 days.
(2) Based on the mid-market quotation on 31 December 2021 of £6.05. For Sharesave options, this is the intrinsic value, e.g., based on the excess value at 31 December 2021 over and above the exercise price.
(3) Sharesave Awards are options and all other awards (DSP, PSP and LTIP) are conditional share awards.
(4) There was no movement in share interests between 31 December 2021 and the date of publication.

Non-Executive Directors' shareholdings

There is no shareholding requirement for Non-Executive Directors. The table below shows the shareholdings of the Non-Executive Directors, and their connected persons, and the value is based on the mid-market quotation on 31 December 2021 of £6.05. There was no movement in share interests between 31 December 2021 and the date of publication.

Director	Number of shares	Value at year end
Philip Cox	60,000	£363,000
John Baxter	10,000	£60,500
Nicola Hodson	0	£0
Kim Keating	0	£0
David Nussbaum	0	£0
Erika Peterman	0	£0
Vanessa Simms	0	£0

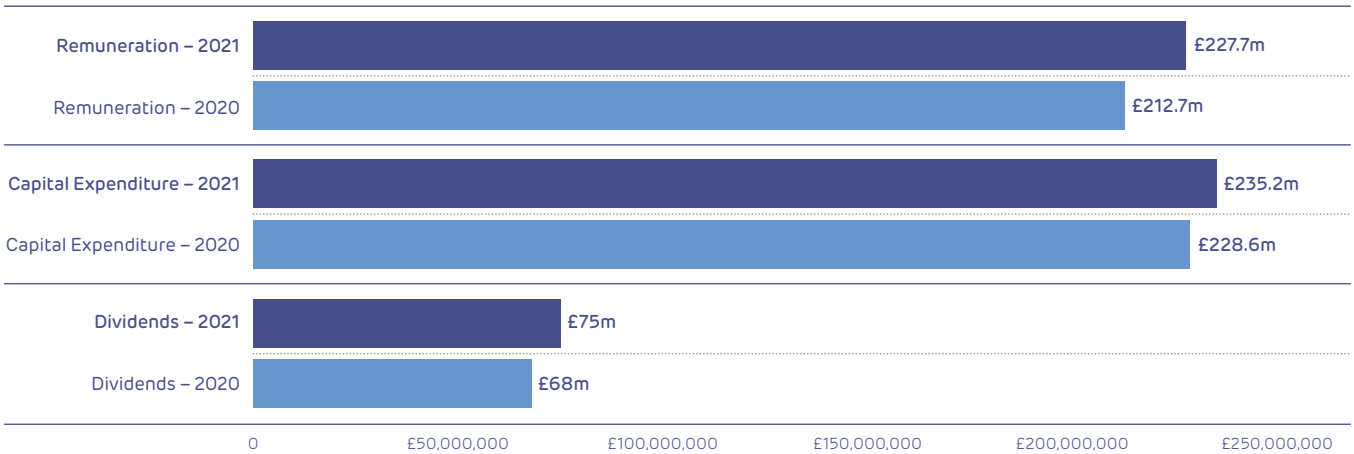
Service agreements or contracts for services

The following table shows, for each Director of the Company as at the date this annual is published, or those who served as a Director of the Company at any time during the year ended 31 December 2021, the start date and term of the service agreement or contract for services, and details of the notice periods. New contracts for services were agreed with Vanessa Simms, Kim Keating and Erika Peterman in 2021.

Director	Date appointed as a director and member of the Board	Contract start date/ renewal date	Permitted Contract term (years)	Unexpired term at date of publication	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	16 November 2015	Indefinite term	Not applicable	12	12
Andy Skelton	2 January 2019	2 January 2019	Indefinite term	Not applicable	12	12
Philip Cox	1 January 2015	1 January 2021	3 years	1 year and 9 months	6	6
John Baxter	17 April 2019	17 April 2019	3 years	1 month	1	1
Nicola Hodson	12 January 2018	12 January 2021	3 years	1 year and 9 months	1	1
Kim Keating	21 October 2021	21 October 2021	3 years	2 years and 7 months	1	1
David Nussbaum	1 August 2017	1 August 2020	3 years	1 year and 5 months	1	1
Erika Peterman	21 October 2021	21 October 2021	3 years	2 years and 7 months	1	1
Vanessa Simms	19 June 2018	19 June 2021	3 years	2 years and 3 months	1	1

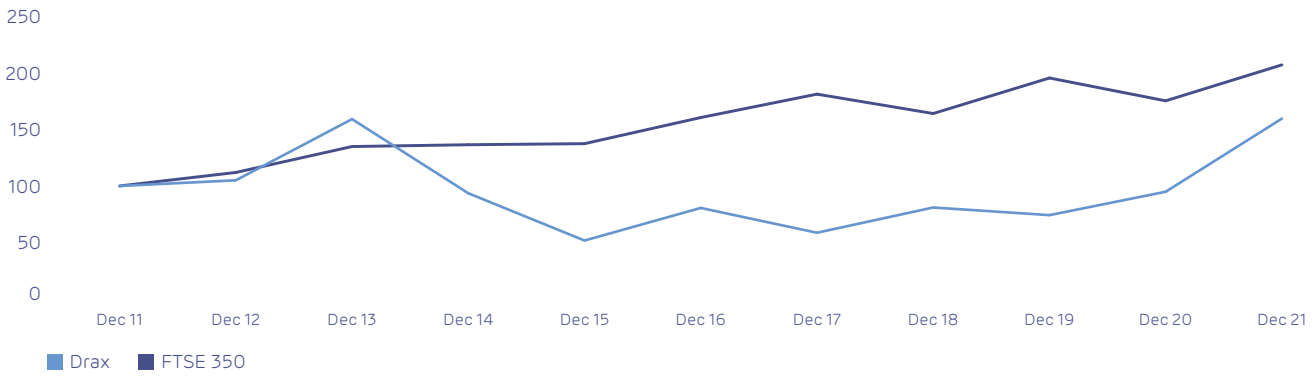
Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, namely distributions to shareholders and capital expenditure. These were the most significant outgoings from the Group in the last financial year, other than normal operating costs. At the forthcoming AGM the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021. The cost with respect to dividends for 2021 in the table below relates to the interim dividend, which was paid in October 2021, and the final dividend to be paid in May 2022, subject to approval at the AGM.



Drax 10 year Total Shareholder Return performance to 31 December 2021

The graph below shows how the value of £100 invested in both the Company and the FTSE 350 Index (Index) on 31 December 2011 has changed. This Index has been chosen as a suitable broad comparator against which the Company's shareholders may judge their relative returns given that the Company is a member of the Index. The graph reflects the TSR for the Company and the Index referred to on a cumulative basis over the period from 31 December 2011 to 31 December 2021.



CEO's pay – last 10 financial years

Year	2012	2013	2014	2015	2016	2017[1]	2018	2019	2020	2021
Group CEO's total single figure (£000)	1,406	3,360	1,854	1,248	1,581	1,236	1,885	1,121	2,013	2,734
Base Salary (£000)	523	542	559	571	574	585	530	541	557	570
Bonus % of maximum awarded	100%	100%	73%	46%	88%	53%	53%	45%	45%	80.50%
LTIP award % of maximum vesting	–	–	40.52%	21.66%	15.43%	0.00%	57.63%	18.00%	57.20%	77.28%

Notes:

(1) Dorothy Thompson stood down as CEO on 31 December 2017 where she was replaced by Will Gardiner. The information reported from 2012 to 2017 relates to the remuneration Dorothy Thompson earned over this period; the information reported from 2018 to 2021 relates to the remuneration Will Gardiner earned over this period.

Percentage change in Directors' remuneration compared with the wider employee population

The table below shows how the percentage change in the Directors' salary/fees, benefits and bonus (where applicable) between 2020 and 2021 compares with the percentage change in the average of each of those components of pay for a group of employees. There are several employer entities but no employees who are specifically employed by Drax Group plc. As a result, the Committee has selected all Group employees below Executive Director level based in the UK, as the majority of employees are based in the UK and this provides the most appropriate comparison.

	Salary/fees (percentage increase)		Taxable benefits (percentage increase)		Bonus (percentage increase)	
	2021	2020	2021	2020	2021	2020
Will Gardiner[1]	2.0%	3.0%	0.0%	0.0%	82.9%	19.2%
Andy Skelton[1]	2.0%	3.0%	0.0%	0.0%	82.9%	9.4%
Philip Cox	2.0%	0%	N/A	N/A	N/A	N/A
John Baxter	2.0%	0%	N/A	N/A	N/A	N/A
Nicola Hodson	2.0%	0%	N/A	N/A	N/A	N/A
Kim Keating[2]	N/A	N/A	N/A	N/A	N/A	N/A
David Nussbaum	2.0%	0%	N/A	N/A	N/A	N/A
Erika Peterman[2]	N/A	N/A	N/A	N/A	N/A	N/A
Vanessa Simms	2.0%	0%	N/A	N/A	N/A	N/A
Average for UK employees	2.0%	3.0%	0.0%	0.0%	78.9%	0.0%[3]

Notes:

(1) The maximum bonus opportunity for Will Gardiner and Andy Skelton increased for FY20 to 175% and 150% respectively, on adoption of the current Policy in 2020. This explains the bonus percentage increase for Will Gardiner and Andy Skelton for 2020. Note, the bonus Scorecard outcome for FY19 and FY20 was the same (0.90). For 2021 the percentage increase is due to a higher bonus scorecard outcome for FY21 of 1.61 (versus 0.90 for FY20).

(2) Kim Keating and Erika Peterman joined the Board on 21 October 2021 and therefore the percentage change in their fees has not been provided.

(3) There was no change in the average bonus for UK employees for 2020. This was because there was no change in bonus opportunity for the wider workforce and the bonus Scorecard outcome for FY19 and FY20 was the same (0.90). For 2021 the percentage increase is due to a higher bonus scorecard outcome for FY21 of 1.61 (versus 0.90 for FY20).

The Non-Executive Directors only receive a fee and the existing fees were increased by 2%, effective 1 January 2021. The average base salary increase resulting from the April 2021 pay review was 2% for the wider workforce, which was the same base salary increase which Will Gardiner and Andy Skelton received. With respect to taxable benefits, there were no material change to Drax's existing benefits policies in 2021, both respect to benefits offered and level of cover.

The bonus outcome increased proportionately for all employees for 2021 due to a higher outturn of the company bonus versus the outturn of the bonus for 2020 (Scorecard outcomes of 1.61 and 0.90 respectively).

CEO pay ratio

The table below sets out the CEO pay ratio for 2021, along with the comparative ratios for 2019 and 2020. The pay ratios have been calculated using actual earnings for the CEO and UK employees. The CEO total single figure remuneration is given on page 148 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2021	Option A	84:1	52:1	34:1
2020	Option A	65:1	38:1	25:1
2019	Option A	42:1	25:1	16:1

The methodology used for calculating the 2019, 2020 and 2021 pay ratios was the same. For 2021, the total remuneration of all UK employees of the Group on 31 December 2021 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2021. The only exception is for employees with Defined Benefit (DB) pensions, where the employer contribution to the respective schemes has been used in the calculation (rather than the single figure methodology) to reduce the administrative complexity. This is likely to undervalue the DB pension value. No adjustments (other than to achieve full-time and full-year equivalent rates) were made and no components of remuneration have been omitted. Of the three options permitted to calculate the percentiles, the Committee has chosen option A (the calculation of the total pay and benefits for 2021 for all UK employees on an FTE basis), as we believe it is the most robust and most statistically accurate method of the options permitted and it is in line with the preference of BEIS.

Set out in the table below is the base salary and the total pay and benefits for each of the identified employees in respect of 2021.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£23,611	£35,882	£55,000
Total Pay and Benefits	£32,722	£53,033	£81,336

Base salaries of all employees, including Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The CEO has a larger portion of his pay based on performance of the business than the individuals at P25, P50 and P75. The Committee believe that our senior executives should have a significant portion of their pay directly linked to the performance of the business, but recognise that this does mean the pay ratios will fluctuate each year depending on business performance and associated outcomes of incentive plans.

The 2021 pay ratios report a wider gap between actual earnings of the CEO and UK employees (than compared to the 2019 and 2020 CEO pay ratios) and this is ultimately due to the higher outturn of the bonus for 2021, despite the Scorecard being the basis of the bonus outcome for all employees. This is also due to a higher vesting of the 2019 PSP versus the 2018 and 2017 PSP (77.28% versus 57.2% and 18.0% respectively).

The Group is comprised of different business units and teams with different levels of pay, including call centre staff, support staff and engineers. The Committee reviews information about employee pay, reward and progression policies of the Group and, (given the relative differences in responsibilities of the roles, the pay relativities between grades within the organisation, and the positioning of pay versus the wider market), is comfortable that the median pay ratio is consistent with these policies.

Statement of implementation of the Remuneration Policy in 2021

This section sets out the proposed implementation of the Directors' Remuneration Policy in 2022. No deviations from the procedure for the implementation of the Policy are proposed.

Base salary

Below are the base salaries of the Executive Directors to take effect on 1 April 2022. This is an increase of 4.5%, which is consistent with the base pay increases for the wider workforce in accordance with the Policy. The overall increase in base salary from 1 April 2021 to 1 April 2022 is 11.4% and 8.7% for Will Gardiner and Andy Skelton respectively. This takes into consideration the base salary increase effective 1 January 2022 to move their base salaries to market rate and the scheduled annual increase of 4.5% effective 1 April 2022 as part of the annual pay review process, which is the average increase for the wider workforce in the UK. An explanation for these changes is set out on page 132.

	Base salary as at 1 April 2021 £000	Base salary as at 1 April 2022 £000	£000 Percentage increase
Will Gardiner	572	638	11.4%
Andy Skelton	373	406	8.7%

Benefits and pension

There are no changes intended to the benefits provided to Executive Directors. Pension contributions for the existing Executive Directors will be unchanged compared to 2021 but as previously reported will be aligned with the rate applicable for new joiners to the wider workforce (currently 10% of base salary) from 1 January 2023.

Annual bonus

The Group Scorecard measures for 2022 have been established for the Group. The Committee believes that the performance targets for the 2022 Scorecard are commercially sensitive, and therefore prospective disclosure would not be in the best interests of shareholders. Details of performance against metrics will be disclosed in the 2022 Annual Report on Remuneration as far as possible, whilst maintaining commercial confidentiality. The following table sets out the categories and a description of the metrics. Further information on this can be found in the report on pages 30 and 31.

Target	Reason for use
Financial metrics (overall weighting of 60% in the Scorecard)	
Group adjusted EBITDA[1] (40% weighting)	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Leverage[1] (20% weighting)	A progressive and structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year.
Strategic metrics (overall 40% weighting in the Scorecard)	
Progress on strategic projects (20% weighting)	This element will assess progress against key strategic projects. The primary project will be further advancement of our BECCS roadmap. In addition, there will be a KPI focused on the further assessment of opportunities to deploy new build BECCS in other geographies outside of the UK, and a KPI on progress made on Cruachan 2.
Environmental, employees and sustainability (20% weighting)	Sustainability and Environmental practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders (as noted on page 31). There will be a KPI focused on improving inclusion across Drax, assessed based on an independent rating. There will be a KPI focused on reducing Drax's carbon emissions at both the Group and individual site level. Finally, a KPI focused on developing a blueprint for a low carbon and low particulate emissions mill. Each of the KPIs in this category will have an equal weighting in the Scorecard.

Notes:
(1) The outturn of this KPI is part of the Group's independent financial audit.

LTIP

The Committee intends to grant LTIP awards to Executive Directors of 200% of salary for the CEO and 175% of salary for the CFO. For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with upper quartile. The targets for the EPS element have not been determined at the date of this report but will be announced prior to the AGM by release of RNS. The performance period for both elements will run from 1 January 2022 to 31 December 2024.

Non-Executive Directors' fees

The Non-Executive Directors' fees are reviewed by the Chair and the Executive Directors on an annual basis. Any changes to the fee structure with respect to 2022 will be disclosed in the 2022 Annual Report on Remuneration.

Shareholder voting

The table below shows the voting outcome at the 2021 AGM on the 2020 Annual Report on Remuneration. The votes cast represent 79.92% of the issued share capital. In addition, shareholders holding 3,677,293 shares abstained.

Voting on the 2020 Annual Report on Remuneration	For	Against
Number of votes	315,926,134	2,084,439
Proportion of votes	99.34%	0.66%

As a reminder, the table below shows the last voting outcome for the Directors' Remuneration Policy at the 2020 AGM.

Voting on the 2020–23 Directors' Remuneration Policy	For	Against
Number of votes	304,206,978	17,334,456
Proportion of votes	94.61%	5.39%

Committee activity and key decisions in 2021

The key matters considered and decisions reached by the Committee in 2021 are shown in the table below:

Our workforce
Reviewed the application of the increases from the annual salary review
Approved the outcome of the 2020 Group Scorecard and approved the outturn of the 2020 Group Bonus Plan
Reviewed 2020 Gender Pay Gap statistics and approved the reporting of them
Adopted the 2021 Group Scorecard for the purpose of determining relevant aspects of 2021 remuneration
Reviewed and inputted on proposals for management of remuneration with respect to Pinnacle colleagues
Executives and senior management
Approved a proposal for members of the Executive Committee and senior staff salary review
Approved Executive Director and Executive Committee member annual bonus awards for 2020
Approved the Deferred Share Plan and LTIP awards for 2021
Approved the vesting of the 2018 PSP awards
Approved the new remuneration packages for the colleagues promoted to the Executive Committee in 2021 (Chief People Officer, General Counsel and EVP Pellet Operations
Committee governance
Considered and approved the 2020 Annual Report on Remuneration
Approved the operation of the all-employee Sharesave Share Plan in 2021
Received updates on workforce engagement
Reviewed the fees paid to PwC, as the Committee's remuneration adviser, together with fees paid by the Group to PwC for other matters, and reviewed PwC's independence

In 2021, the Remuneration Committee was chaired by Nicola Hodson. Other members of the Remuneration Committee during the year were John Baxter, Philip Cox, David Nussbaum, Vanessa Simms and Kim Keating from 21 October 2021, all of whom are independent Non-Executive Directors, and the Group Company Secretary was secretary to the Committee. David Nussbaum stepped down as a member of the Committee on 31 December 2021. The CEO was invited to attend meetings of the Committee, except when his own remuneration was discussed, as was the Chief Transformation Officer, Chief People Officer and the Group Head of Reward.

Adviser to the Committee

The adviser to the Committee for the year was PwC. PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of Executive Directors and Non-Executive Directors. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest. In the autumn the Committee conducted a review of the independent adviser and this review is due to conclude in March 2022. On the appointment of a new independent adviser, it will be communicated in the Directors' Remuneration Report for 2022.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee. PwC was paid £95,300, excluding VAT, during 2021 in respect of advice given to the Committee determined on a time and material basis.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson
Chair of the Remuneration Committee
23 February 2022

Directors' report

This report contains information which the Company is obliged to disclose and which cannot be found in the strategic, financial, sustainability or corporate governance reports of this document.

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2021. The Directors' report required under the Companies Act 2006 is comprised of this Report, the Corporate Governance Report and the Audit, Nomination and Remuneration Committee Reports.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.1 to the financial statements on page 248.

Directors

The following Directors held office during the year:

Philip Cox	Vanessa Simms
Will Gardiner	John Baxter
Andy Skelton	Kim Keating (appointed on 21 October 2021)
David Nussbaum	Erika Peterman (appointed on 21 October 2021)
Nicola Hodson	

The appointment and replacement of Directors is governed by the Company's Articles of Association ("Articles"), the UK Corporate Governance Code, the Companies Act 2006 and related legislation. See Articles 77 to 86 of the Company's Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/.

Annual General Meeting (AGM)

The AGM will be held at 12.30pm on Wednesday 27 April 2022 at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

Dividends

An interim dividend of 7.5 pence per share was paid on 8 October 2021 (2020: 6.8 pence), to shareholders on the register on 27 August 2021.

The Directors propose a final dividend of 11.3 pence per share (2020: 10.3 pence), which will, subject to approval by shareholders at the AGM, be paid on 13 May 2022, to shareholders on the register on 29 April 2022.

Details of past dividends can be found on the Company's website at www.drax.com/investors/shareholder-information/dividends/.

Share capital

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

The Company has only one class of equity shares, being ordinary shares of $11\frac{16}{29}$ pence each, with each ordinary share having one vote. Shares held in treasury do not carry voting rights.

Details of movements in the Company's issued share capital can be found in note 4.5 to the financial statements on page 226.

Shares in issue

At 1 January 2021	410,848,934
Issued in period	2,219,093
At 31 December 2021	413,068,027
Treasury shares at 31 December 2021	13,841,295
Total voting rights at 31 December 2021	399,226,732
Issued between 1 January and 23 February 2022	0
At 23 February 2022	413,068,027
Treasury shares at 23 February 2022	13,841,295
Total voting rights at 23 February 2022	399,226,732

Authority to purchase own shares

At the AGM held on 21 April 2021, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2022 AGM, shareholders will be asked to renew the authority to make market purchases of up to 10% of the issued ordinary share capital. More details on resolution 18 can be found in the Notice of Meeting. During 2021, the Directors did not use their authority to purchase shares in the company.

Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service and also on the Company's website.

As at 23 February 2022, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held[1]
Invesco Limited	22 Oct 2020	–	38,578,024	–	38,578,024	9.71%
Schroders plc	29 Jun 2021	–	38,333,806	67,765	38,401,571	9.64%
BlackRock Inc	22 Jun 2020	–	23,524,482	1,178,747	24,703,229	6.22%
Orbis Holdings Limited	12 Feb 2021	–	20,018,646	–	20,018,646	5.04%

Notes:
(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR.

Rights and obligations attaching to shares

The rights attaching to the Company's Ordinary Shares are set out in the Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/. The Articles may only be changed by shareholders by special resolution.

Attention should be given to the following sections within the Articles, covering the rights and obligations attaching to shares:

- Variation of rights – which covers the rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate General Meeting of the holders of shares of the class duly convened and held in accordance with the Companies Act.
- Transfer of shares – provides detail of how transfers of shares may be undertaken. It also sets out the Directors' rights of refusal to effect a transfer and the action that Directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other holders of shares in the Company, for a transfer of shares to take place.
- Voting, deadlines and proxies – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of appointment of a proxy or corporate representative, the Articles provide for the submission of proxy forms not less than 48 hours (or such shorter time as the Board may determine) before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and General Meetings.

Disabled employees

The Company gives full consideration to applications for employment by disabled persons, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues, and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

Political donations

Drax is a politically neutral organisation and did not make any political donations in 2021. The Company regularly engages with regulators and policymakers (including those associated with political parties and governments) to listen and contribute to discussions on a wide range of matters. Such engagement is an important part of our strategy and contributing to initiatives enabling the UK in its goal of reaching net zero by 2050. Further information on how we engage with stakeholders can be found on pages 34 to 41, and our Political Engagement Policy can be found on the Company's website at: www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/. While we do not believe that any expenditure incurred as a result of this engagement would be considered a political donation under the Companies Act 2006 ("the Act"), due to the broad definition of political donations and as a matter of good governance and transparency, we have provided information on areas of expenditure which may be regarded as falling within the scope of the Act. During the year ended 31 December 2021, Drax exhibited at, and held events at, conferences organised by political parties, spending a total of £75,925 (2020: £11,180). These events allow Drax to present its views on a non-partisan basis to politicians from across the political spectrum and non-political stakeholders such as NGOs and other listed and non-listed companies. These payments do not indicate support for any political party. The recipients were the Conservative Party (£53,800), the Labour Party (£14,475) and the Scottish National Party (£7,650).

At our 2022 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2021 AGM. More details are contained in the Notice of Meeting.

Other significant agreements

- A £300 million facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the "Facility Agreement").
- A £35 million term facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) with Drax Corporate Limited as borrower (the "Term Facility Agreement").
- An indenture dated 26 April 2018 (as amended and supplemented from time to time, including by a supplemental indenture dated 12 February 2019 and a supplemental indenture dated 16 May 2019) between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing $500 million 6.625% senior secured notes due November 2025 (the "2018 Indenture").
- An indenture dated 4 November 2020 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing €250 million 2.625% senior secured notes due 2025 (the "2020 Indenture" and, together with the 2018 Indenture, the "Indentures").
- A £375 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2019 Private Placement").
- A £98 million and €126.5 million term loan facilities agreement dated 18 August 2020, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2020 Private Placement").
- A C$300 million term loan facility agreement and C$10 million revolving credit facility agreement dated 12 July 2021, amongst others, Pinnacle Renewable Energy Inc. and Royal Bank of Canada (as facility agent) (the "2021 Facility Agreement").

Under the Indentures, a change of control (a "Notes Change of Control") occurs if any person other than Drax Group plc becomes the ultimate beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited (unless replaced by a successor parent company), or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed of outside of the Group. No later than 60 days after any change of control, Drax Group Holdings Limited must offer to purchase any outstanding notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

Under the Facility Agreement, the Term Facility Agreement, the 2019 Private Placement, the 2020 Private Placement and the 2021 Facility Agreement, a change of control occurs if any person or group of persons acting in concert gains control of Drax Group plc or if Drax Group plc no longer holds directly 100% of the issued share capital of Drax Group Holdings Limited (subject to carve-outs for the interposition of an intermediate holding company) or else if a Notes Change of Control occurs. Following a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Further information in respect of the Group's financial risk management programme (including commodity risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, and credit risk) appears in note 7.2 to the financial statements on page 253.

Directors' interests and indemnity arrangements

Other than a service contract between the Executive Directors and a Group company no Director had a material interest at any time during the year in any significant contract with the Company or any of its subsidiary undertakings. There are no agreements between the Group and its Directors providing for compensation for loss of office or employment because of a takeover bid. The Company has appropriate indemnity insurance cover in place in respect of legal action against Directors of the Company and its subsidiaries.

Strategic report

The Strategic report on pages 1 to 91 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, streamlined energy and carbon reporting requirements (SECR), future development and research activities.

Auditors and the disclosure of information to the auditor

So far as each person serving as a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all steps that he/she ought to have taken as a Director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

As described in the Audit Committee Report on page 128, during 2021 the Audit Committee conducted an audit tender process for the external auditor. The result of this tender process was the appointment of PricewaterhouseCoopers LLP (PwC) as the new external auditor, to take effect from, and including, the financial year ending 31 December 2024. The appointment will be recommended to shareholders for approval at the AGM in 2024. Subject to shareholder approval at the respective AGMs, Deloitte LLP will continue in its role as external auditor to Drax for the financial years ending 31 December 2022 and 31 December 2023. Resolutions will be proposed at the AGM for (i) the re-appointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the Directors to determine the auditor's remuneration. As explained, the Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 118 to 129.

The Directors' report was approved by the Board on 23 February 2022 and is signed on its behalf by:

Brett Gladden
Group Company Secretary

Registered office: Drax Power Station, Selby, North Yorkshire, YO8 8PH

Registered in England and Wales Number 5562053

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 February 2022 and is signed on its behalf by:

Will Gardiner
CEO

Verification statements

LRQA Independent Assurance Statement

Relating to the Drax Group Plc Environmental and Social Governance data for the period January 1, 2021 to December 31, 2021.

LRQA Limited ("LRQA") has provided independent limited assurance to Drax Corporate Limited ("Drax") over specific data within the Drax Group plc Annual Report 2021 ("the Report") including the following:

- Group GHG emissions (Scope 1 and 2)
- Group GHG emissions (Scope 3)
- Water abstraction and discharge
- Employment data on headcount
- Group energy consumption
- Percentage of emissions in the UK
- Group generation emissions intensity
- Group emissions intensity

The assurance was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000.
LRQA's full independent limited assurance statement can be found at www.drax.com/sustainability

Summary Assurance Statement from Bureau Veritas UK Ltd

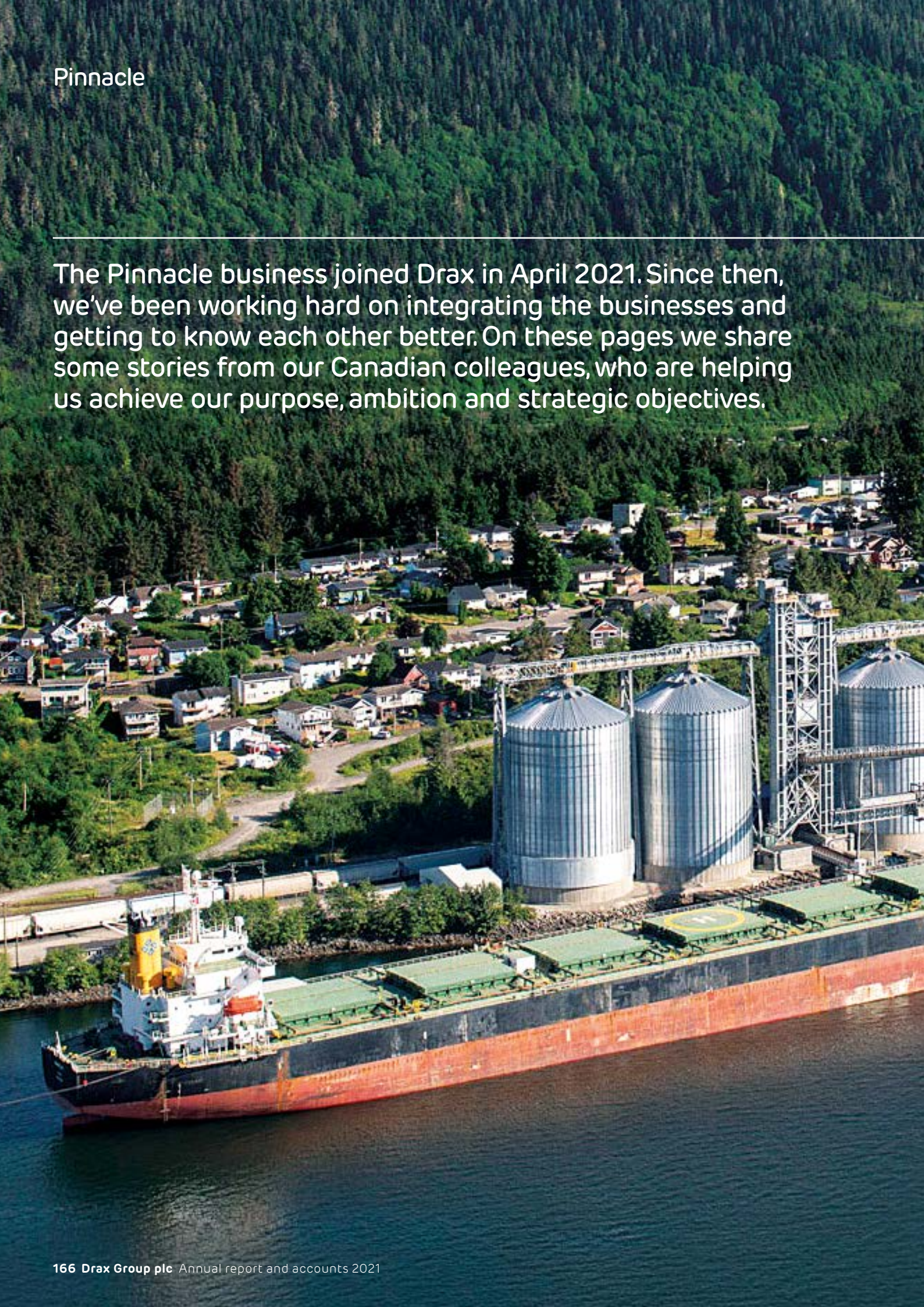
Bureau Veritas UK Ltd has provided independent assurance to Drax Group Plc over its 'average biomass supply chain greenhouse gas emissions' data as reported in its Annual report and accounts 2021.

The assurance process was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after December 15, 2015), issued by the International Auditing and Assurance Standards Board.

Bureau Veritas' full assurance statement includes certain limitations, exclusions, observations, and a detailed assurance methodology and scope of work.

The full assurance statement with Bureau Veritas' independent opinion can be found at www.drax.com/sustainability

The Pinnacle business joined Drax in April 2021. Since then, we've been working hard on integrating the businesses and getting to know each other better. On these pages we share some stories from our Canadian colleagues, who are helping us achieve our purpose, ambition and strategic objectives.



Canada is a land of extremes – from high summer temperatures and wildfires, to bitterly cold winters – and carefully planning and preparation are key to keeping our colleagues safe and our operations running.

All our plants are impacted by cold, snow, and ice in winter, but our most extreme weather is experienced at High Level. Last year, the plant recorded its coldest temperature on record: -42°C. When you factor in the wind chill, that's -52°C, but we're still operating and making pellets. We look ahead, preparing our people, our plants and the business. For our people, personal protective equipment and making sure colleagues are dressed appropriately is critical. This includes providing things like winter gloves, balaclavas, and ice cleats for boots. When it's extremely cold, colleagues use a buddy system when they go outside. We have radio contact and send people out two at a time for very short periods, mixed with lots of inside stints to warm up. The cold weather affects our machinery, and the fibre itself is colder: this impacts on how fast we can run our pellet mills, so our output and sales volumes are typically lower in Q1 of each year. The planning is key: if you aren't proactive, winter will control you instead of you managing it."

Russell Higdon,
General Manager of five Canadian pellet plants – Meadowbank, Smithers, Houston, Burns Lake, and High Level

The MyVoice forums are a key part of our listening strategy and workforce engagement and, in late 2021, we established a MyVoice Forum in Canada, with all members officially appointed in January 2022.

The newly appointed Canadian MyVoice Forum chair, Fernanda Castro, met with the Chair and CEO in September and November 2021, with a new co-chair appointed in January 2022 alongside Fernanda.

As a Co-Chair of my voice forum, during the forum's meetings, I am able to bring forward my colleague's voice, making sure leaders can listen, support and address any concern or feedback given.

"Besides connecting with colleagues from different parts of the business that I would never have a chance, it also gives me a sense of accomplishment. I can see how much this forum can influence decision-making and strengthen our corporate culture by listening to everyone around the globe/ business."

Fernanda Castro
Co-chair MyVoice forum, Canada

Ongoing process safety management is essential for identifying and managing process risk, to reduce the likelihood of a major accident.

We focus on controls of plant, process and people, delivering a consistent approach to process safety and sharing best practice across the Group.

In January 2021, we created a team to identify risk in our process, starting with dry conveyors – assessing each against agreed criteria and identifying areas for improvement. My team and I then worked with engineering firms and vendors to ensure the conveyors had the appropriate protection, which we accomplished during 2021. We also completed a full review of our Port Facility at Westview and are looking to implement best practices learned between the Drax and Pinnacle. It is an extremely exciting time in our process safety journey, and I am pleased to be a part of this journey."

Jeff Johnston
Technical Manager, Northern Operations, Canada

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Independent Auditor's report to the members of Drax Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Drax Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the basis of preparation and statement of accounting policies on pages 178 to 182;
- the notes 2.1 to 8.3 related to the consolidated financial statements; and
- the notes 1 to 9 related to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 2.3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of goodwill and other intangible assets • Valuation of commodity and foreign exchange contracts • Estimation of Customers unbilled revenue Within this report, key audit matters are identified as follows: (!) Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £11.4m which represents approximately 3% of Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation, excluding the impact of exceptional items and certain remeasurements (Adjusted EBITDA).
Scoping	We performed full scope audit work at four components: Drax Generation, Drax Energy Solutions, Opus Energy, Drax Biomass; and audit of specified account balances at Pinnacle. These components represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax.
Significant changes in our approach	*Changes in key audit matters* • Valuation of goodwill and other intangible assets has been identified as a key audit matter in the current year due to the significant level of judgements and increased audit effort in this area. • Estimation of Opus Energy expected bad debt provision was identified as a key audit matter in the prior year due to the impact of Covid-19 and its effect on predicting expected customer default risks. This is no longer considered a key audit matter in the current year due to reduced levels of uncertainty in the determination of expected credit losses. • In the prior year, impairment of OCGT development assets were a key audit matter due to significant uncertainty that underpinned the business case for these assets. We no longer report this as a key audit matter following the award of three Capacity Market contracts during the current year as detailed on page 197.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the availability of adequate funding.
- assessing the assumptions used in the forecasts, including performing sensitivity analysis in relation to assumptions for future commodity prices.
- checking the amount of headroom in the forecasts.
- assessing the historical accuracy of forecasts prepared by management.
- testing mathematical accuracy of the model used to prepare the forecasts.
- assessing whether the Directors have considered the impact of climate risk on the group's going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of goodwill and other intangible assets

Key audit matter description	As at 31 December 2021, the carrying amount of the group's goodwill and intangible assets amounted to £416.3m (2020: £248.2m) and £188.6m (2020: £181.8m). The group's impairment assessment of cash generating units to which goodwill is allocated in accordance with IAS 36 *Impairment of Assets* involves value in use calculations which require estimates, including significant assumptions regarding future cash flows and discount rates. The future cash flow projections are based on a number of variables including margins, future commodity prices, supply volumes, capacity market clearing prices and macro-economic conditions such as climate risk. Further detail of the key judgements and estimation uncertainties are disclosed on pages 181 and 194. Goodwill and intangible assets are disclosed in Section 5.2.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to the impairment review of goodwill and intangible assets. We checked the arithmetical accuracy of the value in use calculations. We evaluated the current year changes to the key assumptions and assessed retrospectively whether prior year assumptions were appropriate. We involved our internal valuation specialists in evaluating management's discount rates. We benchmarked the discount rate to comparable assets and considered the underlying assumptions based on our knowledge of the group and its industry. We assessed the accuracy of management's cash flow projections by comparing historical forecasts with actual cash flows. We assessed whether forecast cash flows were consistent with Board approved forecasts. We also performed sensitivity analysis as part of our overall evaluation of forecast cash flows. In relation to climate risks, we evaluated whether cash flow projections and related assumptions, such as future commodity prices, incorporate the reasonably expected impact of climate change and associated policy changes. We also assessed the financial statements disclosures in relation to the impairment assessments performed.
Key observations	We conclude that the valuation of goodwill and intangible assets as well as the relevant disclosures are appropriate based on the results of our work.

5.2. Valuation of commodity and foreign exchange contracts

Key audit matter description	Net losses on derivative contracts recognised in the consolidated income statement in the year, from continuing operations, are £43.3m (2020: £70.3m), with related derivative assets of £1,246.1m (2020: £283.3m) and liabilities of £1,504.5m (2020: £453.6m) recognised on the consolidated balance sheet as at 31 December 2021. The group has exposure to a number of different financial risks including foreign exchange risk and commodity risk and uses a variety of derivative contracts to mitigate these risks, including commodity contracts, benefit locks and cross currency swaps. The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies and assumptions, including in respect of future market prices, credit risk factors, time value of money and spread adjustments. Due to the inherent risks as described above, the large volume of data involved in the contract valuations, the complex valuation methodologies and models applied, we have identified a risk of error and a potential fraud risk relating to the possibility for management or employees of the company to value trades inappropriately. Specifically, we have identified risks in relation to the valuation of certain more complex derivative contracts which do not have simple contractual terms, specifically being benefit locks (and similar contracts) and inflation swaps and the application of credit risk data calculations as part of deriving overall fair value estimates for derivative contracts. Further detail of the key judgements is disclosed in the Audit Committee report on pages 123 to 126. Section 7 sets out the financial risk management disclosures. In addition the Group uses contracts to buy and sell biomass. These are currently deemed by management to be outside of the scope of IFRS 9, as disclosed in the critical accounting judgements, on the basis that they are not "net settleable". If this judgement were to be incorrect, material balances may be incorrectly excluded from the balance sheet. We therefore identified a risk of error in relation to whether the biomass contracts are net settleable and thus within potentially the scope of IFRS 9.
How the scope of our audit responded to the key audit matter	We obtained an understanding of and tested the operating effectiveness of relevant controls related to the valuation of commodity and foreign exchange contracts. With the involvement of our internal financial instrument specialists, we tested management's key judgements and calculations. This included testing a sample of trades undertaken to trade tickets and checking key contractual terms such as volumes and contracted prices. We have assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts. We have analysed the appropriateness of management's assumptions by benchmarking these to third party sources. We also reviewed the consistency of the assumptions used across other areas of the financial statements, such as asset impairment, where relevant. We have challenged management's approach and assumptions involved in assessing fair value adjustments such as credit risk, time value of money and spread adjustments through consideration of third-party data. We have reviewed management's assessment of whether biomass contracts are "net settleable" as at year end. We have challenged this assessment and considered other sources of evidence which may corroborate or contradict management's conclusions.
Key observations	The valuation of commodity and foreign exchange contracts is reasonable, based on the results of our audit. We consider the valuation methodologies used by management to be appropriate and the valuations are within acceptable ranges for all instruments.

5.3.	Estimation of Customers unbilled receivables
Key audit matter description	The recognition of retail revenue requires an estimation of customer usage between the date of the last meter reading and year end, which is known as unbilled revenue. Across the Customers division, unbilled revenue at the balance sheet date amounted to £256.3m (2020: £204.6m). The method of estimating unbilled revenue is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value. We identified a risk of error and a potential fraud risk in relation to revenue recognition in the Customer businesses, in particular to the estimates underpinning unbilled revenue, as these judgemental areas could be manipulated by management to misreport revenue. Further detail of the key judgements is disclosed in the Audit Committee report on pages 123 to 126. Accrued income is disclosed in note 3.5.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the estimation of certain aspects of unbilled revenue, including controls relating to the reconciliation of meter readings provided by the energy markets, and which are used by management to estimate the power supplied. We also tested the controls over the price per unit applied in the valuation of certain aspects of unbilled revenue. When external market information was not available at the balance sheet date, we obtained and evaluated management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to assess whether the December 2021 unbilled revenue amount was subsequently billed. We also reviewed the aggregate unbilled revenue balance from previous periods to test whether the volumes recognised were appropriate in line with the values accrued.
Key observations	We considered the estimates for revenue earned in the year to be appropriate. Our retrospective reviews of estimated revenues revealed that management have historically achieved a high level of accuracy.

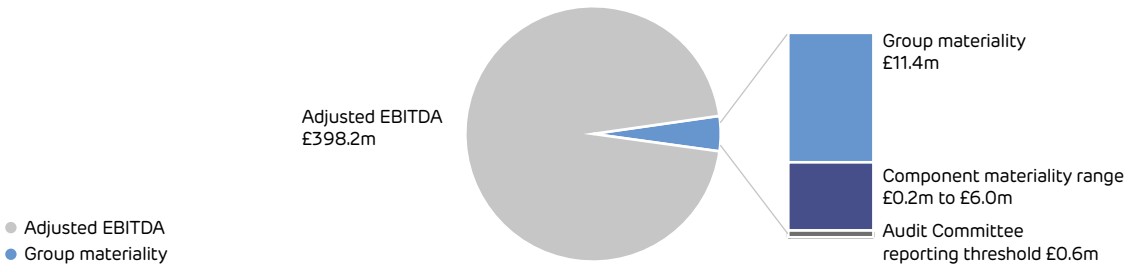
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£11.4m (2020: £12.3m)	£4m (2020: £6.0m)
Basis for determining materiality	Approximately 3% of Adjusted EBITDA (2020: 3% of Adjusted EBITDA)	0.5% of net assets (2020: 0.8%) capped at 35% (2020: 49%) of the materiality identified for the group.
Rationale for the benchmark applied	We consider that Adjusted EBITDA is of particular relevance to users of the financial statements and is a key measure of performance used by the group. It excludes volatility caused in particular by the remeasurements of derivative contracts and exceptional items, defined as those transactions that, by their nature, do not reflect the trading performance of the group in the period.	In determining materiality, we considered the net assets of the company as its principal activity is as an investment holding entity for the group.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) our risk assessment, including our assessment of the overall control environment and that we consider it appropriate to rely on controls over a number of business processes; b) no significant changes in the business during the year which would impact on our ability to identify potential misstatements; and c) history of low level of misstatements identified in the previous audits and managements willingness to correct those adjustments.	

6.3.Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6m (2020: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. We performed full scope audit work at four components: Drax Generation, Haven Power, Opus Energy, Drax Biomass; and audit of specified account balances at Pinnacle. These components represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax.

The group audit was performed by the group audit team in the UK and a component Deloitte team in Canada under the supervision of the Senior Statutory Auditor. Our audit work at all significant component locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £4.0m to £6.0m (2020: £4.3m to £6.1m).

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

7.2. Our consideration of the control environment

Our audit approach was to place reliance on management's relevant controls over revenue and financial instruments business cycles. As part of our controls testing, we obtained an understanding of and tested controls through a combination of inquiry, observation, inspection and re-performance.

We also involved our IT specialists in assessing relevant controls over the group's IT systems. Working with IT specialists we obtained an understanding of the IT environment to assess the relevant risks of material misstatement arising from each relevant IT system and the supporting infrastructure technologies based on the role of each application in the group's flow of transactions. For the assessed risks on key IT systems, we obtained an understanding of and tested relevant automated and general IT controls.

7.3. Our consideration of climate-related risks

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the Group. This is set out in the strategic report on page 88, the principal risks set out on page 88 and accounting policies on page 194. From the financial statements' perspective, these risks have been focused on the valuation of goodwill and other intangible assets. This is consistent with our evaluation of the climate-related risks facing the Group and is linked to the key audit matter as highlighted in section 5.1 above, where we have described both the risks related to these assumptions and our audit procedures in relation to the challenge of these assumptions. In addition we have:

- Challenged how the Directors considered climate change in their assessment of going concern based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- Involved our Environmental Social and Governance (ESG) specialist in assessing the Task Force for Climate related Financial Disclosures (TCFD) on pages 64 to 71 against the recommendations of the TCFD framework.
- Read the climate risk disclosures included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

The group audit team are responsible for the scope and direction of the audit process and provide direct oversight, review, and co-ordination of our component audit teams. We interacted regularly with the component team during each stage of the audit and reviewed key working papers. We maintained continuous and open dialogue with our component teams in addition to holding formal regular meetings to ensure that we were fully aware of their progress and results of their procedures.

Due to the COVID-19 pandemic and the travel restrictions in place during the year, the senior statutory auditor was unable to conduct visits to physically meet with the component audit team in Canada. As a result of this, we performed alternative virtual procedures which included discussing our risk assessment (including risks of material misstatement due to fraud), discussing the audit approach and any issues arising from the component team's work, meetings with local management, and reviewing key audit working papers to drive a consistent and high-quality audit. In addition to our direct interactions, we sent detailed instructions to our component audit teams and attended audit closing meetings.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 21 February 2022;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit team and relevant internal specialists, including tax, pensions, IT, valuations, financial instruments and ESG specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of commodity and foreign exchange contracts, estimation of Customers unbilled revenue, and cut-off of bilateral sales. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context the UK Companies Act, Listing Rules, Pensions legislation, Tax legislation, and Regulations established by regulators in the key markets in which the group operates, including the Office of Gas and Electricity Markets (Ofgem).

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of commodity and foreign exchange contracts and estimation of Customers unbilled revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focussed testing on trades close to the year-end combined with analytical review procedures to assess accuracy and completeness of revenue recognised; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 74 and 75;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 74 and 75;
- the directors' statement on fair, balanced and understandable set out on page 164;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 76 to 91;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 to 91; and
- the section describing the work of the audit committee set out on pages 118 to 129.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 27 April 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2005 to 2021.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Makhan Chahal, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 February 2022

Introduction

The Consolidated financial statements provide detailed information about the financial performance (Consolidated income statement and Consolidated statement of comprehensive income), financial position (Consolidated balance sheet), reserves (Consolidated statement of changes in equity), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 183 to 187, as well as voluntary information which management believe users of the accounts may find useful, in line with the spirit of IFRS.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 as it applies in the United Kingdom.

The financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses arising on such retranslations are recognised in the Consolidated income statement within foreign exchange gains/losses.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using the rates prevailing at the reporting date. The income and expenditure of such operations are translated into sterling using the average monthly exchange rate to the extent this approximates the exchange rates prevailing at the date of the transactions. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets, and its results for the year, are recognised in the Consolidated statement of comprehensive income.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1 to 93 of this Annual report. In particular, Covid-19 and climate change are considered in the Financial Review on page 22.

In the Viability statement on pages 74 to 75 the directors state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years.

Consequently, the directors also have a reasonable expectation that the Group will continue in existence for the next 12 months from the date of signing these Consolidated financial statements and, therefore, have adopted the going concern basis in preparing these financial statements.

Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all its subsidiaries made up to 31 December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control of an entity to the date control ceases.

All intra-group assets and liabilities, equity, income, expenses, unrealised profits and cash flows relating to transactions between the members of the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders that are current ownership interests, entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See note 4.6 for the accounting policy and further details on the Group's accounting for non-controlling interests.

Joint arrangements are contractual arrangements where two or more parties have joint control over the arrangement. Joint arrangements are classified as either a joint operation or a joint venture based upon an analysis of the rights and obligations of the parties in the normal course of business. If the parties to the joint operation have direct rights to the assets, and direct obligations for the liabilities, relating to the arrangement, then it is a joint operation. If the parties to the joint operation have rights to the net assets of the arrangement, then it is a joint venture.

The Group currently only has a joint operation and no joint ventures. The Group recognised its direct right to assets, liabilities, revenue and expenses of the joint operation, as well as its share of any jointly held assets, liabilities, revenue and expenses. These amounts are recognised within the appropriate financial statement line items in accordance with the IFRS standards applicable for that line item.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. This is generally the case where the Group holds between 20% and 50% of the voting rights of an entity.

Associates are accounted for using the equity method. Investments in associates are initially recognised at cost, which includes transaction costs. Goodwill is not separately recognised in relation to associates. Subsequent to initial recognition, the carrying amount of investments in associates are adjusted to recognise the Group's share of after tax profit or loss and other comprehensive income (OCI) of equity-accounted associates, that are recognised in the Consolidated income statement and Consolidated statement of comprehensive income respectively. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. If the carrying amount of an associate reaches £nil, the Group only recognises its share of losses of the associate to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated against the investment to the extent of the Group's percentage ownership in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment. Accounting policies of equity-accounted associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Associates are tested for impairment whenever there are any indicators of impairment. An impairment loss is recognised to the extent of which the carrying amount of the investment exceeds its recoverable amount. Impairment losses on associates are recognised within Income from associates in the Consolidated income statement.

Accounting policies

The significant accounting policies for the measurement of an individual item in the financial statements are described in the note to the financial statements relating to the item concerned (see contents on page 168).

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards and amendments effective as of 1 January 2021. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the financial statements other than in respect of 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'.

Adoption of Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform has resulted in the move away from certain Interbank Offered Rates (IBORs). The financial statement impact of IBOR Reform has been undertaken as a two-phase project. The Group already applies Phase 1 of IBOR Reform, in relation to the amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'. The Phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR Reform, in the period prior to the replacement of an interest rate benchmark impacted by IBOR Reform. The reliefs have the effect that IBOR Reform should not generally cause hedge accounting to terminate.

In the current year, the Group has applied for the first time 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. The amendment was issued in August 2020 and is mandatory for annual reporting periods beginning on or after 1 January 2021. The Group has not restated prior periods as a result of this amendment.

Phase 2 of IBOR Reform provides reliefs from financial reporting impacts of the replacement of an existing interest rate benchmark with an alternative benchmark rate as a result of IBOR Reform. IBOR Reform Phase 2 provides key reliefs regarding a practical expedient for changes to contractual cash flows as a direct consequence of IBOR Reform and hedge accounting reliefs for hedging relationships directly affected by IBOR Reform.

If the Group had not applied the Phase 2 amendments, due to the Group transitioning GBP LIBOR interest rate swaps to Sterling Overnight Index Average (SONIA) in the year, the Group's cash flow hedge accounting for the GBP LIBOR-linked cash flows that swaps were hedging would have had to be discontinued and the amounts accumulated in the hedge reserve relating to these hedges would have had to have been reclassified to the Consolidated income statement. As a result of applying the Phase 2 amendments, hedge accounting has not been discontinued and the amounts accumulated in the hedge reserve relating to these hedges were deemed to be based on the new SONIA benchmark.

Phase 2 amendments have also meant that the Group has amended the effective interest rate in the floating rate GBP LIBOR-linked borrowings that have been transitioned to SONIA. Had the Phase 2 amendments not been applied, the Group would have had to derecognise the borrowings and recognise a new financial liability for the borrowings, with any gain or loss as a result of this being recognised in the Consolidated income statement.

See note 7.2.3 for further details on IBOR reform and the application of 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'.

Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)

In 2021, the IFRS Interpretations Committee (IFRS IC) finalised its agenda decision regarding how to account for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement that conveys to the customer the right to receive access to the supplier's application software over the contract term.

The agenda decision concluded that the right to receive access does not provide the customer with a software asset and therefore, the access to the software is a service that the customer receives over the contract term. The agenda decisions also concluded that often the configuration and customisation costs do not result in an intangible asset of the customer. Therefore, these costs should be recognised as an expense over the period to which they relate.

In limited circumstances, certain configuration and customisation activities may result in a separate asset controlled by the customer. If this is the case the assets should be assessed as to whether it is separately identifiable and if it meets the recognition criteria of IAS 38.

Any changes resulting from this agenda decision would be a change in accounting policy. Agenda decisions should be implemented on a timely basis with entities entitled to sufficient time to implement any necessary accounting policy changes. Assessing the impact of the agenda decision on the Group requires detailed analysis of the historical amounts capitalised. Given the volume of transactions and complexity of disaggregating historic projects included in the analysis this process is still ongoing. This has been further complicated due to the lack of access to key staff and information as a result of the ongoing contractual discussions with a supplier (See note 5.2). The Group expects to conclude its analysis in the first half of 2022. Accordingly, the Group plans to adopt it as a new accounting policy for SaaS arrangements with effect from 1 January 2022 and the results of this change will be reflected in the 2022 Financial Statements.

Judgements and estimates

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements which have the most significant effect on the amounts recognised in the consolidated financial statements, and the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below. Further detail, including sensitivity analysis where appropriate for the key estimates and assumptions, is included in the related notes.

Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements are set out below.

Certain remeasurements and exceptional items

Each year management confirms the judgements made regarding transactions to exclude from the Adjusted results of the Group, as described under Alternative performance measures, below. The judgement as to whether a transaction or group of transactions should or should not be classified as a certain remeasurement or an exceptional item can have a significant impact on the Adjusted results of the Group.

An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee.

See note 2.7 on **page 202**

Accounting for biomass purchase and sale contracts

The Group buys and sells biomass for operational requirements in its Pellet Production and Generation segments. The Group's risk management policies also permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such, the Group undertook an assessment of whether contracts to buy and sell biomass for optimisation purposes brought the Group's biomass contracts within the scope of IFRS 9. If the contracts were deemed to be within the scope of IFRS 9, this would result in these contracts being recognised at fair value as derivative financial instruments from inception.

The Group assessed both biomass purchase and sale contracts and concluded that the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9. The Group concluded this due to the contractual terms having no net settlement provisions and the highly illiquid nature of the biomass market meaning contracts cannot be readily converted into cash. The lack of an active spot market means market participants cannot look to make trading profits from short-term price fluctuations as prices and contracts are negotiated bilaterally with no active market price and no guarantee there will be a willing buyer or seller to trade with. Accordingly, biomass contracts are not recognised in the financial statements until delivery, consistent with the accounting in prior years.

Had the Group concluded biomass contracts were within the scope of IFRS 9, a £1 per tonne movement in price would result in a £31.4 million fair value gain or loss being recognised. The Group continues to assess developments in the biomass market on an ongoing basis to identify whether these developments change this assessment.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry a significant risk of a material effect on next year's financial statements – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, anticipated future replacement cycles and other available evidence. Useful economic lives are reviewed at least annually. The carrying value of Drax Power Station at 31 December 2021 is £882.1 million and depreciation on these assets in the year, based on the useful economic lives disclosed in note 3.1, was £75.1 million. If the useful economic lives were to increase by ten years, the impact on the depreciation charge for the year would be a reduction of approximately £19.4 million. As the future of biomass generation and the Government's net zero strategy become clearer, the potential for a change in useful economic lives for Drax Power Station is increasing (see note 3.1 for further explanation of this).

Impairment

An impairment review is conducted annually of goodwill, intangible assets with an indefinite life, and as required for other assets and cash-generating units (CGUs) where an indicator of possible impairment exists. In 2021, an impairment assessment has been completed for five of the Group's CGUs which all have allocated goodwill (Drax Energy Solutions (formerly Haven Power), Opus, Lanark, Galloway and Cruachan). An impairment review has also been performed on one Group of CGUs, the Pellet Production segment, to which goodwill is allocated. The Pellet Production segment consists of two CGUs (Pinnacle and DBI). The assessment of future cash flows that underpin the impairment reviews are based on management's best estimate of a number of variables including margins, future commodity prices, supply volumes, capacity market clearing prices and macro-economic conditions. The Galloway CGU is the only CGU that has a reasonably possible change in any assumptions which could lead to an impairment. In particular, a reasonably possible increase in the discount rate over the next 12 months, could significantly reduce the headroom, and therefore further minor changes in other assumptions would lead to an impairment. It is therefore a key source of estimation uncertainty.

See note 2.4 on **page 194**

Pension liabilities

The Group records a net surplus or liability in its balance sheet for its obligation to provide benefits under approved defined benefit pension schemes, less the fair value of assets held by the pension schemes. The actuarial valuations of the schemes' liabilities are performed annually by an independent qualified actuary and depend on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. Two of the key estimates within the valuation are the discount and inflation rates. Sensitivities in the valuations are discussed in note 6.3. The value of the pension surplus recognised by the Group at 31 December 2021 in relation to the Drax ESPS scheme is £44.0 million and the value of the pension surplus recognised in relation to the Drax 2019 scheme is £4.9 million.

See note 6.3 on **page 242**

Alternative performance measures (APMs)

The Group uses APMs throughout the Annual report and accounts that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined by IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Defined below are the key APMs used by the Board to assess performance. See the APMs glossary table on page 286 for details of all APMs used, the APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the Consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total Results in arriving at the Adjusted results for the year. The Group's Adjusted results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

Adjusted basic earnings per share

Adjusted basic earnings per share is Adjusted profit from continuing and discontinued operations attributable to the owners of the parent divided by the weighted average number of shares outstanding. This is the same denominator used when calculating basic earnings/(loss) per share.

This metric is used in discussions with the investor community.

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of our operations.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments with non-controlling interests. Adjusted EBITDA excludes amounts directly attributable to non-controlling interests.

Exceptional items and certain remeasurements

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent and commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy.

During the year ended 31 December 2021, the policy has been reviewed and approved by the Audit Committee and guidance issued on the application of the policy. The guidance has been updated for the definition of materiality and clarification that all matters should be assessed on a case-by-case basis in line with the principles set out in the overriding policy. The updated policy would not have changed the transactions classified as exceptional items in the comparative figures contained within these Financial Statements.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective which, under IFRS, are recorded in revenue, cost of sales or foreign exchange gains/losses. Management believes adjusting for fair value gains and losses recognised on derivative contracts provides readers of the accounts with useful information as this removes the volatility caused by movements in market prices over the life of the derivative. The Group regards all of its forward contracting activity to represent economic hedges and therefore the contracted price at delivery or maturity is relevant to the Group and its performance, rather than how the contracted price compares to the current market price, as the Group is not seeking to make trading profits through market price movements.

The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of financial trading (such as forward foreign currency purchases), in Adjusted results. The result of this adjustment shows the impact in revenue, cost of sales and foreign exchange gains/losses at the time the transaction takes place.

See note 2.7 on **page 202**

Net debt

The Group defines net debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.3) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations and trade and other payables. Some of this debt is denominated in foreign currencies and the Group has entered into hedging arrangements associated with this currency exposure.

Net debt is a key metric used by debt rating agencies and the investor community as a key measure of liquidity and the ability to manage the Group's current obligations.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of net debt is also consistent with the Group's covenant reporting requirements.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments with non-controlling interests. The Group discloses net debt attributable to owners of the parent. This measure excludes the proportion of net debt that is attributable to non-controlling interests from the values disclosed.

The Group discloses net debt both before and after the impact of relevant currency hedging derivatives. This adjusts the borrowings figure included in the net debt calculation to take into account the effect of financial instruments entered into to hedge movements in, for example, foreign exchange rates in relation to debt principal repayments. The directors believe that this measure provides useful information about the economic substance of the Group's net debt position.

Net debt to Adjusted EBITDA ratio

This metric is the ratio of net debt to Adjusted EBITDA, expressed as a multiple. The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.

The net debt to Adjusted EBITDA ratio gives an indication of how many years it could take the Group to pay back its debt if net debt and EBITDA are held constant.

From time to time, the Group discloses a "proforma" ratio, which includes adjustments to reflect the cash flow timing impact of significant one-off or other events outside of the Group's control that, in the view of the directors, would otherwise distort performance in the period. Where applicable, such adjustments are described and a rationale for the adjustment provided.

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2021 Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m	Year ended 31 December 2020 Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	2.2	5,173.9	(85.9)	5,088.0	4,235.0	9.7	4,244.7
Cost of sales		(4,331.1)	134.3	(4,196.8)	(3,434.8)	(84.2)	(3,519.0)
Gross profit		842.8	48.4	891.2	800.2	(74.5)	725.7
Operating and administrative expenses[2]	2.3	(448.4)	(21.5)	(469.9)	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets		(16.3)	–	(16.3)	(43.1)	–	(43.1)
Depreciation	3.1	(164.5)	(0.5)	(165.0)	(133.1)	–	(133.1)
Amortisation	5.2	(34.4)	–	(34.4)	(38.4)	–	(38.4)
Asset obsolescence charges	2.7	–	–	–	–	(239.3)	(239.3)
Losses on disposal of fixed assets		(9.4)	–	(9.4)	(5.9)	–	(5.9)
Income from associates		0.3	–	0.3	–	–	–
Operating profit/(loss)		170.1	26.4	196.5	188.7	(344.8)	(156.1)
Foreign exchange gains/(losses)	2.5	0.9	(5.1)	(4.2)	(2.2)	(0.6)	(2.8)
Interest payable and similar charges	2.5	(70.9)	(0.3)	(71.2)	(67.7)	(8.6)	(76.3)
Interest receivable	2.5	0.4	–	0.4	0.5	–	0.5
Profit/(loss) before tax		100.5	21.0	121.5	119.3	(354.0)	(234.7)
Tax:							
– Before effect of changes in tax rate	2.6	(11.7)	(5.7)	(17.4)	(9.1)	67.3	58.2
– Effect of changes in tax rate	2.6	(0.4)	(48.6)	(49.0)	(13.8)	(4.3)	(18.1)
Total tax (charge)/credit		(12.1)	(54.3)	(66.4)	(22.9)	63.0	40.1
Net result from continuing operations[3]		88.4	(33.3)	55.1	96.4	(291.0)	(194.6)
Net result from discontinued operations	5.4	16.7	7.4	24.1	21.2	15.5	36.7
Profit/(loss) for the period		105.1	(25.9)	79.2	117.6	(275.5)	(157.9)
Attributable to:							
Owners of the Parent Company		105.6	(25.9)	79.7	117.6	(275.5)	(157.9)
Non-controlling interests		(0.5)	–	(0.5)	–	–	–
Earnings/(loss) per share:		Pence		Pence	Pence		Pence
For net result from continuing operations attributable to the owners of the Parent Company							
– Basic	2.8	22.3		13.9	24.3		(49.0)
– Diluted	2.8	21.5		13.5	23.8		(49.0)
For net result for the period attributable to the owners of the Parent Company							
– Basic	2.8	26.5		20.0	29.6		(39.8)
– Diluted	2.8	25.6		19.3	29.0		(39.8)

Notes:

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 2.7 for further details.

(2) The 2020 comparatives have been re-presented with £1.0 million of costs previously presented in an acquisition and restructuring line, now being presented within Operating and administrative costs.

(3) Net result from continuing operations of £88.4 million is inclusive of £(0.5) million attributable to non-controlling interests.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2021 £m	2020 £m
Profit/(loss) for the period		**79.2**	(157.9)
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of Defined benefit pension scheme	6.3	**30.7**	1.4
Deferred tax on remeasurement of Defined benefit pension scheme	2.6	**(7.2)**	(0.3)
Deferred tax on share-based payments	2.6	**5.4**	–
Net fair value gains on cost of hedging	7.4	**17.3**	53.3
Deferred tax on cost of hedging	2.6	**(7.7)**	(11.7)
Net fair value gains/(losses) on cash flow hedges	7.3	**1.1**	(33.0)
Deferred tax on cash flow hedges	2.6	**3.6**	5.1
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	4.5	**8.7**	(9.3)
Exchange differences on translation of foreign operations attributable to NCI		**(2.6)**	–
Net fair value losses on cash flow hedges	7.3	**(182.0)**	(38.4)
Net gains/(losses) on cash flow hedges reclassified to the income statement	7.3	**12.6**	(35.7)
Deferred tax on cash flow hedges	2.6	**37.6**	12.3
Other comprehensive expense		**(82.5)**	(56.3)
Total comprehensive expense for the year		**(3.3)**	(214.2)
Attributable to:			
Owners of the Parent Company		**(0.2)**	(214.2)
Non-controlling interests		**(3.1)**	–

Consolidated balance sheet

	Notes	As at 31 December 2021 £m	2020 £m
Assets			
Non-current assets			
Goodwill	5.2	**416.3**	248.2
Intangible assets	5.2	**188.6**	181.8
Property, plant and equipment	3.1	**2,310.7**	1,941.1
Right-of-use assets	3.2	**119.8**	29.0
Other fixed asset investments		**5.5**	1.5
Retirement benefit surplus	6.3	**48.9**	9.5
Deferred tax assets	2.6	**28.7**	65.3
Derivative financial instruments	7.1	**357.5**	103.8
		3,476.0	2,580.2
Current assets			
Inventories	3.4	**199.1**	208.2
ROC assets	3.3	**301.4**	139.6
Trade and other receivables and contract-related assets	3.5	**641.9**	525.3
Derivative financial instruments	7.1	**888.6**	179.5
Current tax assets		**–**	9.0
Cash and cash equivalents	4.1	**317.4**	289.8
Assets held for sale	5.4	**–**	261.3
		2,348.4	1,612.7
Liabilities			
Current liabilities			
Trade and other payables and contract-related liabilities	3.7	**(1,211.1)**	(907.0)
Lease liabilities	3.2	**(15.1)**	(7.0)
Current tax liabilities		**(3.4)**	–
Borrowings	4.2	**(40.6)**	–
Derivative financial instruments	7.1	**(962.7)**	(311.5)
Liabilities directly associated with the assets held for sale	5.4	**–**	(82.5)
		(2,232.9)	(1,308.0)
Net current assets		**115.5**	304.7
Non-current liabilities			
Borrowings	4.2	**(1,320.4)**	(1,065.7)
Lease liabilities	3.2	**(110.8)**	(23.2)
Derivative financial instruments	7.1	**(541.8)**	(142.1)
Provisions	5.3	**(86.4)**	(91.2)
Deferred tax liabilities	2.6	**(225.3)**	(222.0)
Retirement benefit obligation	6.3	**–**	(1.3)
		(2,284.7)	(1,545.5)
Net assets		**1,306.8**	1,339.4
Shareholders' equity			
Issued equity	4.5	**47.7**	47.5
Share premium	4.5	**432.2**	430.0
Hedge reserve	7.3	**(177.4)**	(76.0)
Cost of hedging reserve	7.4	**78.5**	87.2
Other reserves	4.5	**706.0**	697.3
Retained profits	2.10	**198.3**	153.4
Total equity attributable to the owners of the Parent Company		**1,285.3**	1,339.4
Non-controlling interest	4.6	**21.5**	–
Total shareholders' equity		**1,306.8**	1,339.4

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 23 February 2022.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2020	**47.4**	**429.6**	**121.5**	**40.8**	**706.6**	**369.7**	**–**	**1,715.6**
Loss for the year	–	–	–	–	–	(157.9)	–	(157.9)
Other comprehensive (expense)/income	–	–	(89.7)	41.6	(9.3)	1.1	–	(56.3)
Total comprehensive (expense)/income for the year	**–**	**–**	**(89.7)**	**41.6**	**(9.3)**	**(156.8)**	**–**	**(214.2)**
Equity dividends paid (note 2.9)	–	–	–	–	–	(64.7)	–	(64.7)
Issue of share capital (note 4.5)	0.1	0.4	–	–	–	–	–	0.5
Total transactions with the owners	**0.1**	**0.4**	**–**	**–**	**–**	**(64.7)**	**–**	**(64.2)**
Movements on cash flow hedges released directly from equity	–	–	(133.1)	–	–	–	–	(133.1)
Deferred tax on cash flow hedges released directly from equity	–	–	25.3	–	–	–	–	25.3
Movements on cost of hedging released directly from equity	–	–	–	5.2	–	–	–	5.2
Deferred tax on cost of hedging released directly from equity	–	–	–	(0.4)	–	–	–	(0.4)
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	5.2	–	5.2
At 31 December 2020	**47.5**	**430.0**	**(76.0)**	**87.2**	**697.3**	**153.4**	**–**	**1,339.4**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**79.7**	**(0.5)**	**79.2**
Other comprehensive (expense)/income	**–**	**–**	**(127.1)**	**9.6**	**8.7**	**28.9**	**(2.6)**	**(82.5)**
Total comprehensive (expense)/income for the year	**–**	**–**	**(127.1)**	**9.6**	**8.7**	**108.6**	**(3.1)**	**(3.3)**
Equity dividends paid (note 2.9)	**–**	**–**	**–**	**–**	**–**	**(70.9)**	**–**	**(70.9)**
Issue of share capital (note 4.5)	**0.2**	**2.2**	**–**	**–**	**–**	**–**	**–**	**2.4**
Acquisition of subsidiary with NCI (note 5.1)	**–**	**–**	**–**	**–**	**–**	**–**	**39.6**	**39.6**
Investment of NCI	**–**	**–**	**–**	**–**	**–**	**–**	**6.5**	**6.5**
Transactions with NCI	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(21.5)**	**(21.7)**
Total transactions with the owners in their capacity as owner	**0.2**	**2.2**	**–**	**–**	**–**	**(71.1)**	**24.6**	**(44.1)**
Movements on cash flow hedges released directly from equity	**–**	**–**	**33.2**	**–**	**–**	**–**	**–**	**33.2**
Deferred tax on cash flow hedges released directly from equity	**–**	**–**	**(7.5)**	**–**	**–**	**–**	**–**	**(7.5)**
Movements on cost of hedging released directly from equity	**–**	**–**	**–**	**(23.7)**	**–**	**–**	**–**	**(23.7)**
Deferred tax on cost of hedging released directly from equity	**–**	**–**	**–**	**5.4**	**–**	**–**	**–**	**5.4**
Movement in equity associated with share-based payments (note 6.2)	**–**	**–**	**–**	**–**	**–**	**7.4**	**–**	**7.4**
At 31 December 2021	**47.7**	**432.2**	**(177.4)**	**78.5**	**706.0**	**198.3**	**21.5**	**1,306.8**

Consolidated cash flow statement

	Notes	Years ended 31 December 2021 £m	2020 £m
Cash generated from operations	4.4	**354.5**	413.4
Income taxes refunded/(paid)		**12.4**	(48.3)
Interest paid		**(60.5)**	(59.2)
Interest received		**0.1**	0.3
Net cash from operating activities		**306.5**	306.2
Made up of:			
Net cash from continuing operating activities		**322.9**	269.7
Net cash from discontinued operating activities		**(16.4)**	36.5
Cash flows from investing activities			
Purchases of property, plant and equipment		**(191.0)**	(163.8)
Purchases of intangible assets		**(18.7)**	(10.6)
Proceeds from the sale of property, plant and equipment		**0.7**	1.6
Proceeds from the sale of other fixed asset investment		**–**	1.5
Acquisition of subsidiaries net of cash acquired	5.1	**(203.5)**	–
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		**183.7**	–
Net cash used in investing activities		**(228.8)**	(171.3)
Made up of:			
Net cash used in continuing investing activities		**(412.5)**	(134.8)
Net cash used in discontinued investing activities		**183.7**	(36.5)
Cash flows from financing activities			
Equity dividends paid	2.9	**(70.9)**	(64.7)
Investment of NCI		**6.5**	–
Acquisition of additional shares from NCI		**(21.5)**	–
Proceeds from issue of share capital		**2.4**	0.5
New borrowings drawn down	4.2	**302.6**	298.9
Repayment of other borrowings	4.2	**(256.3)**	(475.0)
Payment of principal on lease liabilities		**(13.2)**	(8.8)
Net cash absorbed by financing activities		**(50.4)**	(249.1)
Made up of:			
Net cash absorbed by continuing financing activities		**(50.4)**	(249.1)
Net cash absorbed by discontinued financing activities		**–**	–
Net increase/(decrease) in cash and cash equivalents		**27.3**	(114.2)
Cash and cash equivalents at 1 January		**289.8**	404.1
Effect of changes in foreign exchange rates		**0.3**	(0.1)
Cash and cash equivalents at 31 December	4.1	**317.4**	289.8

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 4.4. Further details of the cash flow impact of exceptional items can be found in note 2.7.

Section 2: Financial performance

The Financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (see note 2.1), analysis of certain income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total Results, dividends and distributable profits (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year, which is predominantly reflected in Adjusted EBITDA, can be found in the Strategic report on pages 1 to 93, with particular reference to key transactions and market conditions that have affected the results.

2.1 Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central corporate office providing certain specialist and shared functions. The Group's businesses, which each represent a reportable segment are:

- Generation: power generation activities in the UK;
- Customers: supply of electricity and gas to business customers in the UK; and
- Pellet Production: production and sale of sustainable compressed wood pellets at our processing facilities in the US and Canada.

Pellet Production includes the financial results of Pinnacle Renewable Energy Inc. (Pinnacle) from the date of acquisition on 13 April 2021. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three segments. The primary measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined in the basis of preparation).

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Corporate office costs are included within central costs.

When defining gross profit within the financial statements, the Group follows the principal trading considerations applied by its Generation, Customers and Pellet Production businesses when making a sale. In respect of Generation, this reflects the direct costs of the commodities to generate the power (such as biomass, coal, and carbon, or power purchased) and the relevant grid connection costs that arise. In respect of Customers, this reflects the direct costs of supply; being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms. In respect of the Pellet Production business, this reflects the direct costs of production, being the fibre, fuel and drying costs, in addition to direct freight and port costs.

Accordingly, cost of sales excludes depreciation, presented separately on the face of the income statement, indirect overheads and staff costs. See note 3.4 for details of the cost included in inventories.

Seasonality of trading

The primary activities of the Group are affected by seasonality. Demand in the UK for electricity and gas is typically higher in the winter period (October to March) when temperatures are lower, and thus drives higher prices and dispatch. Conversely, demand is typically lower in the summer months (April to September), when prices are lower.

This trend is experienced by all of our UK-based businesses, as they operate within the UK electricity and gas markets and is most notable within the Generation business due to its scale and the flexible operation of thermal generation plant when prices may be lower in the summer.

The Pellet Production business incurs certain costs that are higher in winter months due to the effects of inclement weather. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations as a result of seasonality by regular production and dispatch schedules under its contracts with customers, both intra-group and externally.

2.1 Segmental reporting continued

Segment revenues and results

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below. The financial information in these tables is comprised solely of results from continuing operations. The Adjusted profit before tax from discontinued operations of £20.3 million (2020: £26.0 million) is attributable entirely to the Generation segment and is described in further detail in note 5.4. Segment Adjusted EBITDA is presented in note 2.7.

	Year ended 31 December 2021							
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue								
External sales	2,651.2	2,359.6	163.1	–	–	5,173.9	(85.9)	5,088.0
Inter-segment sales	2,031.1	–	286.7	–	(2,317.8)	–	–	–
Total revenue	4,682.3	2,359.6	449.8	–	(2,317.8)	5,173.9	(85.9)	5,088.0
Cost of sales	(4,131.9)	(2,255.9)	(267.0)	–	2,323.7	(4,331.1)	134.3	(4,196.8)
Segment gross profit	550.4	103.7	182.8	–	5.9	842.8	48.4	891.2
Operating and administrative expenses	(198.9)	(81.7)	(96.9)	(70.9)	–	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	–	(16.3)	–	–	–	(16.3)	–	(16.3)
Depreciation and amortisation	(103.4)	(30.5)	(61.4)	(3.6)	–	(198.9)	(0.5)	(199.4)
Income from associates	–	–	0.3	–	–	0.3	–	0.3
Losses on disposal of fixed assets	(7.8)	(0.4)	(1.0)	(0.2)	–	(9.4)	–	(9.4)
Operating profit/(loss)	240.3	(25.2)	23.8	(74.7)	5.9	170.1	26.4	196.5
Foreign exchange gains/(losses)	2.0	(0.1)	(0.8)	(0.2)	–	0.9	(5.1)	(4.2)
Net interest charge	(4.4)	(5.6)	(19.6)	(40.9)	–	(70.5)	(0.3)	(70.8)
Profit/(loss) before tax	237.9	(30.9)	3.4	(115.8)	5.9	100.5	21.0	121.5

The segmental split of exceptional items and certain remeasurements are set out in note 2.7.

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2020:

	Year ended 31 December 2020							
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue								
External sales	2,115.7	2,119.3	–	–	–	4,235.0	9.7	4,244.7
Inter-segment sales	1,530.1	–	231.0	–	(1,761.1)	–	–	–
Total revenue	3,645.8	2,119.3	231.0	–	(1,761.1)	4,235.0	9.7	4,244.7
Cost of sales	(3,036.9)	(2,035.0)	(127.4)	–	1,764.5	(3,434.8)	(84.2)	(3,519.0)
Segment gross profit	608.9	84.3	103.6	–	3.4	800.2	(74.5)	725.7
Operating and administrative expenses	(209.0)	(80.1)	(51.9)	(50.0)	–	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets	–	(43.1)	–	–	–	(43.1)	–	(43.1)
Depreciation and amortisation	(104.0)	(36.7)	(27.6)	(3.2)	–	(171.5)	–	(171.5)
Asset obsolescence charge	–	–	–	–	–	–	(239.3)	(239.3)
(Losses)/gains on disposal of fixed assets	(1.1)	0.8	(5.6)	–	–	(5.9)	–	(5.9)
Operating profit/(loss)	294.8	(74.8)	18.5	(53.2)	3.4	188.7	(344.8)	(156.1)
Foreign exchange gains/(losses)	1.2	(0.3)	–	(3.1)	–	(2.2)	(0.6)	(2.8)
Net interest charge	(2.9)	(6.6)	(12.8)	(44.9)	–	(67.2)	(8.6)	(75.8)
Profit/(loss) before tax	293.1	(81.7)	5.7	(101.2)	3.4	119.3	(354.0)	(234.7)

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements.

2.1 Segmental reporting continued

Capital expenditure by segment

Assets and working capital are monitored on a consolidated basis; however, spend on capital projects is monitored by operating segment.

	Additions to intangible assets		Additions to property, plant and equipment[1]	
	2021 £m	2020 £m	2021 £m	2020 £m
Generation	**3.4**	1.9	**103.2**	157.9
Customers	**8.9**	6.2	**0.1**	0.5
Pellet Production	**8.2**	–	**108.6**	58.5
Central	**1.8**	0.5	**3.6**	3.1
Total	**22.3**	8.6	**215.5**	220.0

Total cash outflows in relation to capital expenditure during the year for continuing and discontinued operations were £209.7 million (2020: £174.4[1] million). Capital expenditure excluding movements on decommissioning provisions was £237.8 million (2020: £199.7 million).

Note:

(1) The difference between the cost capitalised and the cash flow in 2020 is predominantly a result of the recognition of the asset associated with the increase in the decommissioning provision in the year, a non-cash adjustment of £28.9 million (see note 5.3).

Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2021, the Pellet Production segment sold biomass pellets with a total value of £286.7 million (2020: £231.0 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £2,031.1 million (2020: £1,530.1 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

Major customers

There was no individual customer that represented 10% or more of total revenue for the year ended 31 December 2021 (2020: consolidated revenue includes £495.2 million from one individual customer. These revenues arose in the Generation segment).

Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

In prior years all of the Group's revenue was UK based and all non-current assets, excluding the Pellet Production plant assets (see note 3.1) which are located in North America, were all located in the UK. Since the acquisition of Pinnacle, the Group now has third party pellet sales to additional locations, as seen in the table below. Pinnacle's non-current assets are located in North America, in both the US and Canada.

	Revenue from continuing operations (based on location of customer) £m		Non-current assets[1] (based on asset's location) £m	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
North America	**11.5**	–	**987.4**	323.8
Europe	**39.1**	–	**–**	–
Asia	**93.0**	–	**–**	–
UK	**4,944.4**	4,244.7	**2,053.5**	2,077.8
Total	**5,088.0**	4,244.7	**3,040.9**	2,401.6

(1) Non-current assets comprise goodwill, intangible assets, PP&E, right-of-use assets and investments.

2.2 Revenue

Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excludes transactions between Group companies. Revenue is presented gross in the income statement as the Group controls the specified good or service prior to the transfer to the customer.

Revenues from the sale of electricity by the Group's Generation business are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have passed to the customer at the point that the electricity has been supplied. The performance obligation is satisfied based on the output method; this method recognises revenue based on the value transferred to the customer. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.

The Group recognises the income or costs arising from the Contract for Difference (CfD) (see below) in the Consolidated income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

Ancillary services derived from the provision of services to National Grid are recognised by reference to the stage of completion of the contractual performance obligations. Most such contracts are for the delivery of a service either continually or on an ad-hoc basis over a period of time and thus stage of completion is calculated by reference to the amount of the contract term that has elapsed. Depending on the contract terms, this approach may require judgement in estimating probable future outcomes.

Other income from power generation is derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum). This is recognised at the point the control of the goods is transferred to the customer, typically at the point of delivery to the customer's premises or collection by the customer.

Revenue from the sale of electricity and gas directly to business customers through the Customers business is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered. Energy supplied is measured based upon metered consumption and contractual rates; however, where a supply has taken place but is not yet measured or billed, the revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements.

Revenue on contracts for the sale of electricity and gas is satisfied over time and is recognised in line with the progress of those contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price customers contracts, and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can be variable, therefore actual outcomes may vary from initial estimates.

The Group is eligible for, and applies, the practical expedient available in IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

The Group produces biomass pellets. External pellet sales are recognised when the customer obtains control of the pellets which is generally at the point the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price for the pellets. For Cost, insurance and freight (CIF) sales, where freight is also arranged for the customer, this is considered a separate performance obligation and revenue from the freight portion is recognised over the period the vessel sails.

CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2021 was £118.54 per MWh.

When market prices (based on average traded prices in the preceding season) are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the generating unit supported by the CfD. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

2.2 Revenue continued

ROC sales

The generation and sale of Renewable Obligation Certificates (ROCs) is a key driver of the Group's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2021 the Group is operating in CP20.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index (RPI). The buy-out price in CP20 is £50.80. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a CP.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £339.8 million of such sales (2020: £495.2 million), with a similar value reflected in cost of sales. External ROC sales are recognised at the point the ROCs are transferred to the counterparty. See note 3.3 for further details of ROCs generated and sold by the Generation businesses and those utilised by the Customers business in the year.

Further analysis of revenue for the year ended 31 December 2021 is provided in the table below. The financial information in these tables is comprised solely of results from continuing operations:

	Year ended 31 December 2021		
	External £m	Intra-group £m	Total £m
Generation			
Electricity sales	1,790.2	1,688.5	3,478.7
ROC sales	538.6	342.6	881.2
CfD income	234.9	–	234.9
Ancillary services	50.6	–	50.6
Other income	36.9	–	36.9
Customers			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
Pellet Production			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
Elimination of intra-group sales	–	(2,317.8)	(2,317.8)
Total adjusted consolidated revenue	5,173.9	–	5,173.9
Certain remeasurements	(85.9)	–	(85.9)
Total consolidated revenue	5,088.0	–	5,088.0

Certain remeasurements losses of £85.9 million (2020: gains of £9.7 million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £5.4 million (2020: £13.3 million). See note 3.7 for further details on contract liabilities.

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil (2020: £nil).

2.2 Revenue continued

The following is an analysis of the Group's revenues for the year ended 31 December 2020:

	Year ended 31 December 2020		
	External £m	Intra-group £m	Total £m
Generation			
Electricity sales	1,049.2	1,156.3	2,205.5
ROC sales	650.2	373.8	1,024.0
CfD income	342.3	–	342.3
Ancillary services	36.4	–	36.4
Other income	37.6	–	37.6
Customers			
Electricity and gas sales	2,118.8	–	2,118.8
Other income	0.5	–	0.5
Pellet Production			
Pellet sales	–	231.0	231.0
Elimination of intra-group sales	–	(1,761.1)	(1,761.1)
Total adjusted consolidated revenue	4,235.0	–	4,235.0
Certain remeasurements	9.7	–	9.7
Total consolidated revenue	4,244.7	–	4,244.7

For accounting policies and other disclosures related to contract assets and liabilities, including a reconciliation between opening and closing balances, please see notes 3.5 and 3.7.

For accounting policies and other disclosures related to costs incurred to acquire customer contracts, please see note 3.6.

2.3 Operating expenses

This note sets out the material components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's auditor, Deloitte LLP, in respect of services they provided to the Group during the year:

	Years ended 31 December	
	2021 £m	2020[1] £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	**218.6**	196.3
Repairs and maintenance expenditure on property, plant and equipment	**109.1**	100.1
Other operating and administrative expenses	**142.2**	125.6
Total operating and administrative expenses	**469.9**	422.0

(1) The 2020 comparatives have been represented with £1.0 million of costs previously presented in an acquisition and restructuring line, now being presented within Operating and administrative costs.

2.3 Operating expenses continued

Auditor's remuneration

	Years ended 31 December	
	2021 £'000	2020 £'000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**1,250.0**	937.0
Fees payable for the audit of the Company's subsidiaries	**40.0**	38.0
	1,290.0	975.0
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**110.0**	98.0
Other services	**–**	2.0
Total audit-related fees	**1,400.0**	1,075.0
Other assurance services	**469.0**	226.0
Total non-audit fees	**469.0**	226.0
Total auditor's remuneration	**1,869.0**	1,301.0

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above.

Other assurance services provided by Deloitte LLP in 2021 consist of agreed upon procedures and other assurance services provided in connection with the acquisition of Pinnacle Renewable Energy Inc. (2020: assurance and agreed-upon procedures performed in connection with the bond refinancing in October 2020 and the proposed acquisition of Pinnacle Renewable Energy Inc.). See the Audit Committee report on page 118 for further details on other assurance services provided by Deloitte LLP.

2.4 Impairment review of fixed assets and goodwill

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at least annually.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs (or groups of CGUs) expected to benefit from the synergies or other benefits of the combination.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognised for goodwill is not reversed in a subsequent period. Non-financial assets other than goodwill that have an impairment loss recognised are reviewed in subsequent reporting periods for possible reversal of the impairment.

CGUs

In respect of the Customers business, the Group considers the smallest groups of assets that generate independent cash inflows to be equivalent to the operating entities within those businesses.

Prior to the acquisition of Pinnacle, the Pellet Production business was considered to consist of one CGU – DBI. As a result of the Pinnacle acquisition, the Group has assessed Pinnacle and deemed that the cash inflows across the Pinnacle plants are not independent from each other and therefore Pinnacle consists of one CGU. The Pellet Production business therefore now consists of two CGUs – DBI and Pinnacle. Goodwill recognised on the acquisition of Pinnacle has been allocated to the Pellet Production segment due to the pellet operations as a whole being expected to benefit from the synergies of the larger, combined pellet operations.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash inflows to be the individual sites that share common infrastructure and control functions. As described on page 12, following the decision to cease commercial coal generation at Drax Power Station in 2020, a review of CGUs at that site determined the site to be comprised of two separate CGUs, one for biomass generation assets and one for coal generation assets. Following this change the coal CGU was fully written down in the prior year. In January 2021 the Group disposed of its CCGT power stations (See note 5.4 for further details).

2.4 Impairment review of fixed assets and goodwill continued

The Central function does not have any external cash inflows and therefore does not meet the definition of a CGU and so is not included in the table below.

Segment name	CGUs contained within segment	Impairment indicators identified?	Goodwill £m
Generation	Drax Power Station (biomass)	N	–
	Lanark	N	11.3
	Galloway	N	40.1
	Cruachan	N	26.9
	OCGTs	N	–
Customers	Drax Energy Solutions (formerly Haven Power)	Y	10.7
	Opus Energy	Y	159.2
Pellet Production	Pinnacle and DBI	N	168.1

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or CGU (value in use), or the expected price that would be received to sell the asset to another market participant (fair value less costs to sell). The initial assessment of the recoverable amount is normally based on value in use.

The assessment of future cash flows is based on the approved long-term forecasts used to support the Board's strategic planning process and includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges. Assessments of future cash flows consider relevant environmental and climate factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of the impact of climate change, growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

The additional value that could be obtained from enhancing the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to. In determining value in use, the estimate of future cash flows is discounted to present value using a rate reflecting the specific risks attributable to the CGU in question.

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Impairment losses are recognised immediately in the Consolidated income statement.

Assessment of indicators of impairment

A review of the Group's CGUs gave rise to an indicator of impairment for the two CGUs which compromise the Customers business unit due to the continuing adverse impacts of Covid-19 on their financial performance during 2021. As goodwill is attributed to both of these CGUs, an impairment review is performed annually.

In determining that no indicators of impairment existed in respect of the remaining CGUs, the Group considered changes in market prices for commodities, foreign currency exchange rates, changes in macro-economic conditions, potential impacts of climate change, Covid-19 and regulatory requirements since the previous balance sheet date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows.

Particular consideration was given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation are due to expire. Forecasts indicated that the majority of the carrying amount of the Drax Power Station (biomass) CGU is supported by pre-2027 cash flows. Whilst the Group has a strategic imperative to reduce biomass prices over time, as part of a strategy to secure a long-term future for biomass generation, the long-term models that inform impairment conclusions are subjected to an additional sensitivity to identify the risk that biomass prices do not reduce significantly in the period up to and following the cessation of subsidies. Further consideration of biomass prices is included in the Strategic report on pages 1 to 93. Drax Power Station is viewed as having a useful life until 2039 at least and an expectation of continuing to be in operation until that time.

2.4 Impairment review of fixed assets and goodwill continued

Goodwill impairment review

Pellet Production

The recoverable amount of the Pellet Production group of CGUs, consisting of the Pinnacle and DBI CGUs, was measured based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are production costs and volumes. Estimates regarding these assumptions are based on management's expectations of future organic growth and lower costs. Management has projected cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change and the expected growth in the biomass industry as economies transition to more renewable forms of energy and net zero. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry.

The carrying amounts and discount rates applied to the Pellet Production group of CGUs are set out in the table below:

Group of CGUs	Carrying Amount £m	Discount Rate
Pellet Production	967.1	8.5%

The discount rate of 8.5% was calculated based on independent analysis commissioned by the Group.

The value in use for the Pellet Production group of CGUs was significantly in excess of its carrying amount, including allocated goodwill, as disclosed in the table above. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

Drax Energy Solutions (formerly Haven Power) and Opus Energy

The recoverable amounts of the Drax Energy Solutions and Opus Energy CGUs are measured annually, based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Estimates regarding these assumptions are based on management's expectations of future organic growth, wholesale energy and third-party costs and achieved profitability. Inherent in these assumptions are expectations about future energy prices, collection rates and supply costs. Management has projected cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change, the transition to renewable forms of energy and net zero, and the impact of future changes in climate levies on energy supply. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of their business models.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount £m	Discount Rate
Drax Energy Solutions	48.7	8.7%
Opus Energy	249.0	8.7%

The expected future cash flows of the Drax Energy Solutions CGU were discounted using a discount rate of 8.7%, calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that this rate reflects the prospects for a well-established Customers business, reflecting the comparatively long trading record and customer bases these businesses hold. The value in use of the Drax Energy Solutions CGU, including the goodwill, was significantly in excess of its carrying amount. Reflecting the significant headroom in the analysis, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Drax Energy Solutions CGU that was lower than its carrying amount.

2.4 Impairment review of fixed assets and goodwill continued

The carrying amount of the Opus Energy CGU at 31 December 2021 includes intangible assets of £89.0 million. Opus Energy's forecasted cash flows are adjusted to reflect the relative risk profile of its customer base. However Opus Energy is integrated and operating under the same central management team as Drax Energy Solutions. Opus Energy also operates in the same industry, under the same macro-economic conditions and is impacted by the same commodity prices and impacts of climate change as Drax Energy Solutions. Therefore the discount rate has been assessed at 8.7%, in line with that of Drax Energy Solutions. The recoverable amount of the Opus Energy CGU was assessed under several scenarios that reflect the Group's future plans for the business. In each case the recoverable amount remained in excess of its carrying amount assuming a recovery trajectory that returns to profitability following the impact of Covid-19.

The Group conducted a sensitivity analysis on the estimates of future cash flows for the Opus Energy CGU and concluded that no reasonable possible change in any of the key assumptions would result in the recoverable amount falling below its carrying amount.

Lanark, Galloway and Cruachan

The Group tests the goodwill associated with the Lanark, Galloway and Cruachan CGUs for potential impairment annually. The recoverable amount of each CGU was calculated based on a value in use calculation using the Group's established planning model. The model depends on a broad range of assumptions, the most significant of which are power prices, operating model, sources of stability income and the discount rate applied. Estimates regarding these assumptions are based on management's expectations of future wholesale energy prices, operational factors and ongoing capital investment required to maintain the assets. Management has projected cash flows based on the period of 15 years. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change and the continued transition to renewable forms of energy and net zero carbon initiatives. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on macro-environmental factors which were obtained from publicly available forecasts and does not exceed the relevant long-term average growth rate for the industry.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount £m	Discount Rate
Lanark	52.7	7.3%
Galloway	178.3	7.3%
Cruachan	297.7	7.3%

The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Generation business.

The value in use for the Lanark CGU and Cruachan CGU in the table above, including allocated goodwill, were significantly in excess of their carrying amount. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than their carrying amount.

The nature of the run-of-river assets and the application of fair value accounting on acquisition in 2018 results in a limited level of headroom for the Galloway CGU of £41 million. The value in use calculation for Galloway is sensitive to the discount rate applied. An increase in the discount rate of 1.1% would significantly reduce the headroom, and therefore in combination with very minor changes to other inputs, could result in a recoverable amount that was materially lower than the carrying amount for the Galloway CGU. Having conducted a sensitivity analysis of all key assumptions, apart from the Galloway discount rate, no other reasonably possible changes that would result in the elimination of all headroom were identified.

Development assets impairment review

The development assets arose on the acquisition of four OCGT projects in December 2016 and reflect the value of planning and consents. Full impairment reviews have been performed on these assets in prior years.

In 2021, three of these OCGT projects obtained Capacity Market contracts for the delivery period October 2024 to September 2039, providing increased certainty over future cash flows over this period to the Group. As such these three OCGT projects no longer have any impairment indicators. These three projects continue to progress to enable them to be operational by 2024. Therefore the three development assets have been transferred to property, plant and equipment during the year and will be depreciated over the expected life of the OCGTs once construction of these projects has been completed and the assets are available for use. The development asset relating to the OCGT which is yet to take a contract is immaterial. The Group is confident of obtaining a Capacity Market contract for this project in a future auction.

2.5 Net finance costs

Finance costs reflect expenses incurred in managing the debt structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful lives (see note 5.3), net interest charged on the Group's defined benefit pension scheme obligations (see note 6.3) and lease liabilities (see note 3.2). These are offset by interest income that the Group generates through efficient use of short-term cash surpluses, for example through investment in money market funds.

Refinancing activity in 2021

Changes in the Group's financing structure during 2021 are described in note 4.2.

A reconciliation of Net finance costs is in the table below:

	Years ended 31 December	
	2021 £m	2020 £m
Interest payable and similar charges:		
Interest payable on borrowings measured at amortised cost	**(59.2)**	(57.1)
Interest on lease liabilities	**(4.9)**	(1.0)
Unwinding of discount on provisions	**(0.6)**	(0.4)
Amortisation of deferred finance costs – excluding amounts identified below	**(5.7)**	(5.9)
Other financing charges	**(0.5)**	(3.3)
Total interest payable and similar charges included in adjusted results	**(70.9)**	(67.7)
Interest receivable:		
Interest income on bank deposits	**0.1**	0.2
Net finance credit in respect of defined benefit scheme (note 6.3)	**0.3**	0.3
Total interest receivable included in adjusted results	**0.4**	0.5
Foreign exchange gains/(losses) included in adjusted results	**0.9**	(2.2)
Total recurring net finance costs included in adjusted results	**(69.6)**	(69.4)
Exceptional costs of debt restructure:		
Fees to exit existing facilities (note 4.3)	–	(3.8)
Acceleration of deferred costs in relation to previous facilities	–	(4.8)
Total exceptional costs of debt restructure	–	(8.6)
Certain remeasurements on financing derivatives	**(5.4)**	(0.6)
Total net finance costs	**(75.0)**	(78.6)

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the balance sheet date.

2.6 Current and deferred taxation

The tax charge includes both current and deferred tax. The tax charge reflects the estimated effective tax on the profit before tax for the Group for the year ended 31 December 2021 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement.

Accounting policy

Current tax includes UK corporation tax, corporate income tax in Canada and US income tax. It is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit or loss before tax as reported in the Consolidated income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases, based on specialist independent tax advice. No uncertain tax provisions have been recognised in the current or prior year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are recognised in other comprehensive income or directly in equity respectively.

The Group has utilised the relief available under the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, in line with IAS 20 Government Grants and are recorded in operating profit within the Consolidated income statement, with the corresponding receivable being offset against corporation tax payable.

In accounting for taxation, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered.

	Years ended 31 December	
	2021 £m	2020 £m
Total tax charge/(credit) from continuing operations comprises:		
Current tax		
– Current year	**7.7**	11.2
– Adjustments in respect of prior periods	**1.4**	(12.3)
Deferred tax		
– Before impact of tax rate changes	**7.3**	(62.4)
– Adjustments in respect of prior periods	**1.0**	5.3
– Effect of changes in tax rate	**49.0**	18.1
	66.4	(40.1)

	Years ended 31 December	
	2021 £m	2020 £m
Tax charged/(credited) on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension scheme	**7.2**	0.3
Deferred tax on share-based payments	**(5.4)**	–
Deferred tax on cash flow hedges	**(41.2)**	(17.4)
Deferred tax on cost of hedging	**7.7**	11.7
	(31.7)	(5.4)

2.6 Current and deferred taxation continued

	Years ended 31 December	
	2021 £m	2020 £m
Tax charged/(credited) on items released directly from equity:		
Deferred tax on cost of hedging	**(5.4)**	0.4
Deferred tax on cash flow hedges	**7.5**	(25.3)
	2.1	(24.9)

UK corporation tax is the main tax for the Group and is calculated at 19% (2020: 19%) of the assessable profit or loss for the year. Due to the Group's overseas operations the federal tax rates in the US of 21% (2020: 21%) and the corporate tax rate in Canada of 27% (2020: not relevant to the Group) are also relevant to the Group's tax charge.

No tax charge or credit arose on the disposal of Drax Generation Enterprise Ltd as the gain arising from the disposal was exempt from tax by virtue of the substantial shareholding exemption.

The tax rate for the full year, before the impact of changes in tax rates, is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims and the new super-deduction introduced in the Finance Act 2021, which allows for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred from April 2021.

The Finance Act 2021 contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Management has therefore remeasured the deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2023. The impact of this rate increase is a net £49.0 million deferred tax charge through the Total column of the Consolidated income statement (2020: 17% to 19% rate increase resulting in a net £18.1 million charge).

Drax completed the acquisition of Pinnacle Renewable Energy Inc. on 13 April 2021. The Group tax charge above includes the tax charge in respect of the results of the Pinnacle Group for the period under Drax ownership.

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Profit/(loss) before tax from continuing operations	**100.5**	**21.0**	**121.5**	119.3	(354.0)	(234.7)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2020: 19%)	**19.2**	**4.0**	**23.2**	22.6	(67.3)	(44.7)
Effects of:						
Adjustments in respect of prior periods	**2.4**	**–**	**2.4**	(7.0)	–	(7.0)
Expenses not deductible for tax purposes	**2.8**	**1.7**	**4.5**	2.5	–	2.5
Effect of changes in tax rate	**0.4**	**48.6**	**49.0**	13.8	4.3	18.1
Difference in overseas tax rates	**(1.1)**	**–**	**(1.1)**	0.1	–	0.1
Patent box benefit	**(8.0)**	**–**	**(8.0)**	(8.0)	–	(8.0)
Tax effect of RDEC credit	**(0.9)**	**–**	**(0.9)**	(1.1)	–	(1.1)
UK super-deduction	**(2.7)**	**–**	**(2.7)**	–	–	–
Total tax charge/(credit)	**12.1**	**54.3**	**66.4**	22.9	(63.0)	(40.1)

In the medium term, the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK. This is principally due to tax relief arising from the UK Patent Box regime (see below) and the UK capital allowances super-deduction (applicable FY21-FY23). These benefits are partially offset by US federal tax rates of 21% and the Canadian corporate income tax rate of 27%.

Drax Power was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation the Company is entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of the patented technology.

2.6 Current and deferred taxation continued

The movements in deferred tax assets and liabilities during each year are shown below.

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2020	(26.7)	(194.6)	1.7	(20.1)	27.5	(27.5)	16.1	(223.6)
Credited to the income statement	9.1	13.0	0.6	4.4	6.7	4.2	1.0	39.0
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(0.3)	(0.3)
Credited to other comprehensive income in respect of cash flow hedges	17.4	–	–	–	–	–	–	17.4
Charged to other comprehensive income in respect of cost of hedging	(11.7)	–	–	–	–	–	–	(11.7)
Credited to equity in respect of cash flow hedges	25.3	–	–	–	–	–	–	25.3
Charged to equity in respect of cost of hedging	(0.4)	–	–	–	–	–	–	(0.4)
Effect of changes in foreign exchange rates	–	–	–	–	(0.7)	–	(0.3)	(1.0)
Transferred to liabilities held for sale	–	(1.4)	–	–	–	–	–	(1.4)
At 1 January 2021	**13.0**	**(183.0)**	**2.3**	**(15.7)**	**33.5**	**(23.3)**	**16.5**	**(156.7)**
(Charged)/credited to the income statement	**(5.6)**	**(64.4)**	**–**	**(3.5)**	**11.7**	**5.4**	**(0.9)**	**(57.3)**
Charged to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**–**	**(7.2)**	**(7.2)**
Credited to other comprehensive income in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**5.4**	**5.4**
Credited to other comprehensive income in respect of cash flow hedges	**41.2**	**–**	**–**	**–**	**–**	**–**	**–**	**41.2**
Charged to other comprehensive income in respect of cost of hedging	**(7.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7.7)**
Charged to equity in respect of cash flow hedges	**(7.5)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7.5)**
Credited to equity in respect of cost of hedging	**5.4**	**–**	**–**	**–**	**–**	**–**	**–**	**5.4**
Impact of acquisition	**–**	**(44.7)**	**–**	**(0.6)**	**14.4**	**(0.8)**	**19.6**	**(12.1)**
Effect of changes in foreign exchange rates	**–**	**(0.5)**	**–**	**(0.1)**	**0.4**	**–**	**0.1**	**(0.1)**
At 31 December 2021	**38.8**	**(292.6)**	**2.3**	**(19.9)**	**60.0**	**(18.7)**	**33.5**	**(196.6)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset	**–**	**(38.1)**	**–**	**(0.2)**	**17.5**	**(0.4)**	**26.6**	**5.4**
Net US deferred tax asset	**–**	**(27.6)**	**–**	**–**	**42.5**	**(0.3)**	**8.7**	**23.3**
Net UK deferred tax liability	**38.8**	**(226.9)**	**2.3**	**(19.7)**	**–**	**(18.0)**	**(1.8)**	**(225.3)**

2.6 Current and deferred taxation continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise they are shown separately in the balance sheet. Within the above trade losses deferred tax asset of £60.0 million there is £36.5 million (2020: £33.5 million) in relation to start-up losses in the US business. The remaining £23.5 million relates to Pinnacle US (£6.0 million) and Pinnacle Canada (£17.5 million) acquired during the year.

The US business is profitable at a profit before tax level in 2021 and as a result, the net deferred tax asset has reduced by £3.7 million in 2021. As a result of deductions for accelerated capital allowances and other timing differences, the US business is expected to report a loss for tax purposes for 2021. The Canadian business generated a small loss before tax in 2021.

The future reversal of timing differences and the expected reversal of accelerated capital allowances, coupled with the profitability, stable output and forecast improvement in operational performance, mean that the Canadian and US businesses anticipate that they will generate sufficient profits in the medium term against which to utilise the deferred tax asset.

2.7 Alternative performance measures

See the APMs Glossary table to these financial statements on page 286 for details of all APMs used, the APMs closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted Results in the Consolidated income statement. The Directors believe that this approach is useful and provides a clear and consistent view of underlying trading performance. Certain remeasurements and exceptional items are excluded from Adjusted Results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

The Group has a policy and framework for the determination of transactions as exceptional. All transactions presented as exceptional are also approved by the Audit Committee. See the Audit Committee Report on page 116 for further details. In these financial statements, the following transactions have been designated as exceptional items and presented separately:

- Costs associated with the acquisition and integration of Pinnacle Renewable Energy Inc. (2021 and 2020, Pellet production)
- The restructuring of the Customers business (2021, Customers).
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation (2021 and 2020, Generation).
- Tax rate change (2021, all segments).
- Costs incurred as a result of restructuring the Group's debt in 2020, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities (2020, Central).
- Asset obsolescence charges relating to coal-specific assets written-off following the decision to cease commercial coal generation in March 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station (2020, Generation).

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better reflect the trading performance of the Group in Adjusted Results.

2.7 Alternative performance measures continued

	Years ended 31 December 2021 £m	2020 £m
Exceptional items:		
Inventory provision as a result of coal closure	**(0.3)**	(4.8)
Acquisition costs	**(7.9)**	(1.0)
Restructuring costs	**(5.2)**	–
Integration costs	**(4.1)**	–
Coal closure costs	**(4.8)**	(30.0)
Asset obsolescence charges	**–**	(239.3)
Exceptional items included within operating profit	**(22.3)**	(275.1)
Cost of debt restructure (note 2.5)	**–**	(8.6)
Exceptional items included in profit before tax	**(22.3)**	(283.7)
Taxation on Exceptional items	**(46.1)**	48.6
Exceptional items after taxation	**(68.4)**	(235.1)
Remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	**(77.0)**	8.7
Net remeasurements realised on maturity of derivative contracts included in revenue	**(8.9)**	1.0
Net fair value remeasurements on derivative contracts included in cost of sales	**36.6**	(46.6)
Net remeasurements realised on maturity of derivative contracts included in cost of sales	**98.0**	(28.2)
Net remeasurements reclassified to profit or loss on discontinued hedges included in cost of sales	**–**	(4.6)
Remeasurements included within operating profit	**48.7**	(69.7)
Net fair value remeasurements on derivative contracts included in Interest payable and similar charges	**(0.3)**	–
Net fair value remeasurements on derivative contracts included in Foreign exchange gains/(losses)	**(5.1)**	(0.6)
Remeasurements included in profit before tax	**43.3**	(70.3)
Taxation on certain remeasurements	**(8.2)**	14.4
Remeasurements after taxation	**35.1**	(55.9)

Reconciliation:		
Adjusted net result from continuing operations	**88.4**	96.4
Exceptional items after tax	**(68.4)**	(235.1)
Remeasurements after tax	**35.1**	(55.9)
Profit/(loss) after tax	**55.1**	(194.6)

Asset obsolescence charges in the table above is comprised of:

	2021 £m	2020 £m
Asset obsolescence charges for property, plant and equipment due to coal closure	**–**	225.1
Asset obsolescence charges for intangible assets due to coal closure	**–**	0.8
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	**–**	13.4
Total asset obsolescence charges	**–**	239.3

2.7 Alternative performance measures continued

Adjusted EBITDA, Adjusted profit after tax and Total profit after tax are key measures of profitability for the Group but, as a result of discontinued operations, are not visible on the face of the income statement. Therefore, a reconciliation is provided below:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	**377.9**	**88.4**	**55.1**	366.1	96.4	(194.6)
Discontinued operations	**20.3**	**16.7**	**24.1**	45.9	21.2	36.7
Total	**398.2**	**105.1**	**79.2**	412.0	117.6	(157.9)

For each item designated as exceptional the table below summarises the impact of the item on the Adjusted results and the tax charge from continuing operations, and the total cash flow from continuing and discontinued operations:

	Year ended 31 December 2021							
	Revenue £m	Gross profit £m	Operating profit £m	Profit/(loss) before tax £m	Tax (credit)/ charge £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Cash flow from Operating activities £m
Total results IFRS measure	**5,088.0**	**891.2**	**196.5**	**121.5**	**(66.4)**	**55.1**	**13.9**	**306.5**
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	**85.9**	**(48.7)**	**(48.7)**	**(43.3)**	**8.2**	**(35.1)**	**(8.8)**	**–**
Exceptional items:								
Inventory provision as a result of coal closure	**–**	**0.3**	**0.3**	**0.3**	**(0.1)**	**0.2**	**0.1**	**–**
Acquisition costs	**–**	**–**	**7.9**	**7.9**	**–**	**7.9**	**1.8**	**7.9**
Restructuring costs	**–**	**–**	**5.2**	**5.2**	**(0.8)**	**4.4**	**1.1**	**4.4**
Integration costs	**–**	**–**	**4.1**	**4.1**	**(0.8)**	**3.3**	**0.8**	**3.3**
Operating expenditure as a result of coal closure	**–**	**–**	**4.8**	**4.8**	**(0.8)**	**4.0**	**1.2**	**–**
Impact of tax rate change	**–**	**–**	**–**	**–**	**48.6**	**48.6**	**12.2**	**–**
Total	**85.9**	**(48.4)**	**(26.4)**	**(21.0)**	**54.3**	**33.3**	**8.4**	**15.6**
Adjusted totals	**5,173.9**	**842.8**	**170.1**	**100.5**	**(12.1)**	**88.4**	**22.3**	**322.1**

	Year ended 31 December 2020							
	Revenue £m	Gross profit £m	Operating (loss)/profit £m	(Loss)/profit before tax £m	Tax charge/ (credit) £m	(Loss)/ profit for the period £m	Basic (loss)/ earnings per share Pence	Cash flow from Operating activities £m
Total results IFRS measure	4,244.7	725.7	(156.1)	(234.7)	40.1	(194.6)	(49.0)	306.2
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	(9.7)	69.7	69.7	70.3	(14.4)	55.9	14.1	–
Exceptional items:								
Inventory provision as a result of coal closure	–	4.8	4.8	4.8	(0.8)	4.0	1.0	–
Acquisition costs	–	–	1.0	1.0	(0.2)	0.8	0.2	0.8
Operating expenditure as a result of coal closure	–	–	30.0	30.0	(5.1)	24.9	6.3	–
Asset obsolescence charges – coal closure	–	–	225.9	225.9	(38.7)	187.2	47.1	–
Asset obsolescence charges – Repower	–	–	13.4	13.4	(2.3)	11.1	2.8	–
Cost of debt restructure	–	–	–	8.6	(1.5)	7.1	1.8	–
Total	(9.7)	74.5	344.8	354.0	(63.0)	291.0	73.3	0.8
Adjusted totals	4,235.0	800.2	188.7	119.3	(22.9)	96.4	24.3	307.0

2.7 Alternative performance measures continued

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group, but is not visible from the face of the income statement. A reconciliation from the Adjusted operating profit from continuing operations visible on the face of the income statement is shown below:

	Year ended 31 December 2021		
	Attributable to		
	the owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit	**170.6**	**(0.5)**	**170.1**
Depreciation and amortisation	**198.3**	**0.6**	**198.9**
Loss on disposal of fixed assets	**9.3**	**0.1**	**9.4**
Other gains	**(0.3)**	**–**	**(0.3)**
Adjusted EBITDA from continuing operations	**377.9**	**0.2**	**378.1**
Adjusted EBITDA from discontinued operations	**20.3**	**–**	**20.3**
Adjusted EBITDA from continuing and discontinued operations	**398.2**	**0.2**	**398.4**

	Year ended 31 December 2020[1] £m
Adjusted operating profit	188.7
Depreciation and amortisation	171.5
Loss on disposal of fixed assets	5.9
Adjusted EBITDA from continuing operations	366.1
Adjusted EBITDA from discontinued operations	45.9
Adjusted EBITDA from continuing and discontinued operations	412.0

(1) No split between amounts attributable to Drax and amounts attributable to NCI has been presented as, prior to 2021, the Group had no NCI and so all amounts were attributable to the owners of the Parent Company.

	Year ended 31 December 2021					
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m
Segment Adjusted EBITDA:						
Continuing operations	**351.5**	**5.7**	**85.7**	**(70.9)**	**5.9**	**377.9**
Discontinued operations	**20.3**	**–**	**–**	**–**	**–**	**20.3**
Total	**371.8**	**5.7**	**85.7**	**(70.9)**	**5.9**	**398.2**

	Year ended 31 December 2020					
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m
Segment Adjusted EBITDA:						
Continuing operations	399.9	(38.9)	51.7	(50.0)	3.4	366.1
Discontinued operations	45.9	–	–	–	–	45.9
Total	445.8	(38.9)	51.7	(50.0)	3.4	412.0

Cash and committed facilities

The below table reconciles the Group's cash and committed facilities of £548.8 million (2020: £681.9 million).

	2021 £m	2020 £m
Cash and cash equivalents (note 4.1)	**317.4**	289.8
Revolving credit facility (RCF) available but not utilised[1]	**231.4**	232.2
Customers trade receivable factoring facility available but not utilised (note 4.4)	**–**	30.0
2020 Private placement facility available but not utilised (note 4.2)	**–**	130.0
Total cash and committed facilities	**548.8**	682.0

(1) The Group's available balance on the RCF facility (includes £300 million and C$10 million RCF, see note 4.2) is reduced by letters of credit drawn under the RCF. At 31 December 2021 £74.4 million letters of credit were drawn (2020: £67.8 million).

2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact of all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the contingency period (such as those to be issued under employee share schemes – see note 6.2), were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2021	2020
Earnings attributable to equity holders of the Company (£m), made up of:	**79.7**	(157.9)
Net result from continuing operations	**55.6**	(194.6)
Net result from discontinued operations	**24.1**	36.7
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**398.4**	396.8
Effect of dilutive potential ordinary shares under share plans	**14.2**	8.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**412.6**	405.0

Repurchased shares (see note 4.5) are not included in the weighted average calculation of shares. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Years ended 31 December	
	2021	2020
Total earnings/(loss) per share		
Earnings/(loss) per share – basic (pence)	**20.0**	(39.8)
Earnings/(loss) per share – diluted (pence)	**19.3**	(39.8)

Application of the same calculation to Adjusted profit after tax of £105.6 million results in Adjusted basic EPS of 26.5 pence and Adjusted diluted EPS of 25.6 pence (2020: Adjusted profit after tax of £117.6 million, Adjusted basic EPS of 29.6 pence and Adjusted diluted EPS of 29.0 pence).

	Years ended 31 December	
	2021	2020
Earnings per share from continuing operations		
Earnings/(loss) per share – basic (pence)	**13.9**	(49.0)
Earnings/(loss) per share – diluted (pence)	**13.5**	(49.0)

Application of the same calculation to Adjusted profit after tax from continuing operations of £88.9 million results in Adjusted basic EPS of 22.3 pence and Adjusted diluted EPS of 21.5 pence (2020: Adjusted profit after tax from continuing operations of £96.4 million, Adjusted basic EPS of 24.3 pence and Adjusted diluted EPS of 23.8 pence).

	Years ended 31 December	
	2021	2020
Earnings per share from discontinued operations		
Earnings per share – basic (pence)	**6.1**	9.2
Earnings per share – diluted (pence)	**5.8**	9.1

Application of the same calculation to Adjusted profit after tax from discontinued operations of £16.7 million results in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence (2020: Adjusted profit after tax from discontinued operations of £21.2 million, Adjusted basic EPS of 5.3 pence and Adjusted diluted EPS of 5.2 pence).

2.9 Dividends

	Years ended 31 December 2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2021 of 7.5 pence per share paid on 8 October 2021 (2020: 6.8 pence per share paid on 2 October 2020)	**29.9**	27.0
Final dividend for the year ended 31 December 2020 of 10.3 pence per share paid on 14 May 2021 (2019: 9.5 pence per share paid on 15 May 2020)	**41.0**	37.7
	70.9	64.7

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share (equivalent to approximately £45 million) payable on or before 13 May 2022. The final dividend has not been included as a liability as at 31 December 2021. This would bring total dividends payable in respect of the 2021 financial year to £75 million.

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating, investment in the core business, paying a sustainable and growing dividend, and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends, the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

Consideration of sustainability, including a link to our dividend, can be found in the Market context section on pages 2 and 3.

2.10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Years ended 31 December 2021 £m	2020 £m
At 1 January	**153.4**	369.7
Profit/(loss) for the year	**79.7**	(157.9)
Remeasurement gains on defined benefit pension scheme (note 6.3)	**30.7**	1.4
Deferred tax on actuarial gains on defined benefit pension scheme (note 2.6)	**(7.2)**	(0.3)
Deferred tax on share base payments (note 2.6)	**5.4**	–
Equity dividends paid (note 2.9)	**(70.9)**	(64.7)
Net movements in equity associated with share-based payments (note 6.2)	**7.4**	5.2
Adjustments related to non-controlling interests (note 4.6)	**(0.2)**	–
At 31 December	**198.3**	153.4

Distributable profits

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The Parent Company financial statements set out on pages 276 to 282 of this Annual report, disclose the Parent Company's distributable reserves of £199 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in holding and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the Parent Company has access to these reserves.

The immediate cash resources of the Group of £317 million are set out in note 4.1 and the recent history of cash generation within note 4.4. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 4.2) place customary conditions on the amount of dividend payments to be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future. See the Viability statement on page 74 and note 4.2 for further details on the restrictions and covenants relating to the financing facilities.

Section 3: Operating assets and working capital

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

3.1 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by the Group that are used in the businesses to generate revenue. The cost of an asset is what was paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life (UEL) of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

Accounting policy

Property, plant and equipment assets are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value.

The Group constructs many of its assets as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated UELs of the assets from the date that they are brought into use (where relevant, limited to the expected decommissioning date of the site where the asset is located).

In accordance with IFRS 5, the depreciation on the gas-fired assets ceased in December 2020, the point at which the assets were classified as, and transferred to, assets held for sale (see note 5.4).

The table below shows the weighted average remaining useful economic lives of the main categories of assets held at the balance sheet date:

	Average UEL remaining 2021 (years)
Freehold buildings	**19**
Plant and equipment	
Electricity generation assets:	
Drax Power Station common plant	**15**
Drax Power Station biomass-specific assets	**17**
Hydro-electric plants (including pumped storage)	**40**
Pellet production plant	**10**
Other plant, machinery and equipment	**14**
Decommissioning asset	**18**
Plant spare parts	**18**

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated. The value of freehold land held at 31 December 2021 is £26.5 million (2020: £11.7 million).

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

An impairment charge is recognised immediately if the carrying value of an asset exceeds its recoverable amount. The Group's policy is to recognise an impairment charge through accumulated depreciation and impairment if the asset will continue to be used by the Group or if the asset will be subsequently sold. Assets that will no longer be used by the Group are disposed of by removing both the cost and any accumulated depreciation and impairment.

Electricity generation assets are grouped according to the fuel type of the plant. Certain assets at Drax Power Station are common to the whole plant and are shown separately. Common plant that will continue to be used for biomass generation post coal closure will continue to be recognised.

3.1 Property, plant and equipment continued

Pellet Production plant includes the US and Canadian based assets of the Group's Pellet Production segment and the assets at the Daldowie Fuel Plant near Glasgow.

Plant spare parts are depreciated over the remaining useful life of the relevant power station or plant.

Costs relating to major inspections, overhauls and upgrades to the power stations are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the balance sheet date. Any changes are applied prospectively.

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2021, are set out in note 2.4.

During the year, the pre-front end engineering design (Pre-FEED) study for Bioenergy with carbon capture and storage (BECCS) was successfully completed. Also, the East Coast Cluster, of which Drax is a constituent, was named a 'track one' cluster by the UK government in its plans to develop carbon capture, usage and storage by the mid-2020s. These developments, along with other information, has resulted in the Group commencing the capitalisation of costs associated with BECCS, due to the recognition requirements of IAS 16 now being met. This has resulted in £5.4 million of costs related to BECCS being capitalised up to 31 December 2021.

Significant estimation uncertainty

Asset lives are reviewed annually at each balance sheet date, taking into consideration the impact of climate and environmental change. See note 2.4 for further details.

As disclosed on page 208, the Group has made an estimate regarding UELs. Given the continued focus on climate change, greener sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the Government's net zero strategy continues to evolve and become clearer, particularly in relation to BECCS, the Group will continue to assess any potential impact of these developments and whether UELs would be required to be updated, particularly in relation to Drax Power Station. Accordingly, given the continued rate of change in these areas, this increases the risk that UELs will be updated in the near future as new information becomes available, and as such a change in UELs, particularly in relation to Drax Power Station's biomass assets, has been disclosed as a key source of estimation uncertainty. If BECCS is deployed at Drax Power Station this could result in an extension of the end of station life. If the useful economic life of Drax Power Station was to increase by ten years, the impact on the depreciation charge for the year would be a decrease of approximately £19.4 million.

3.1 Property, plant and equipment continued

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Assets under the course of construction £m	Total £m
Cost:					
At 1 January 2020	421.9	2,851.7	69.1	204.6	3,547.3
Additions at cost	–	29.6	6.5	183.9	220.0
Disposals	(1.4)	(16.7)	–	–	(18.1)
Asset obsolescence (note 2.7)	–	–	–	(13.4)	(13.4)
Issues to maintenance projects	–	–	(5.4)	–	(5.4)
Transfers between categories	13.0	109.2	2.9	(125.1)	–
Transfers to intangible assets	–	–	–	(5.7)	(5.7)
Transfers to assets held for sale	(40.8)	(129.5)	(3.5)	(52.2)	(226.0)
Effect of foreign exchange rates	(3.4)	(8.0)	–	(3.3)	(14.7)
At 1 January 2021	**389.3**	**2,836.3**	**69.6**	**188.8**	**3,484.0**
Additions at cost	13.9	0.9	5.3	195.4	215.5
Acquisitions	43.8	185.0	–	61.1	289.9
Disposals	(1.4)	(26.8)	–	–	(28.2)
Issues to maintenance projects	–	–	(5.5)	–	(5.5)
Transfers between PPE and Inventories	–	–	3.7	–	3.7
Transfers from right-of-use assets	0.3	0.7	–	–	1.0
Transfers from/(to) Intangibles	–	19.3	–	(1.2)	18.1
Transfers between PPE categories	5.7	156.4	(0.8)	(161.3)	–
Effect of foreign exchange rates	2.2	8.0	–	2.2	12.4
At 31 December 2021	**453.8**	**3,179.8**	**72.3**	**285.0**	**3,990.9**
Accumulated depreciation and impairment:					
At 1 January 2020	90.1	1,111.7	18.1	–	1,219.9
Depreciation charge for the year	13.6	128.0	2.5	–	144.1
Asset obsolescence (note 2.7)	0.2	223.3	1.6	–	225.1
Disposals	(0.4)	(10.2)	–	–	(10.6)
Issues to maintenance projects	–	–	(1.2)	–	(1.2)
Transfers between categories	0.2	(4.5)	4.3	–	–
Transfers to assets held for sale	(0.3)	(29.9)	(0.4)	–	(30.6)
Effect of foreign exchange rates	(1.0)	(2.8)	–	–	(3.8)
At 1 January 2021	**102.4**	**1,415.6**	**24.9**	**–**	**1,542.9**
Depreciation charge for the year	15.8	130.2	3.8	–	149.8
Disposals	(0.1)	(16.2)	–	–	(16.3)
Issues to maintenance projects	–	–	(0.8)	–	(0.8)
Transfers from right-of-use assets	0.1	0.7	–	–	0.8
Transfers between PPE categories	(0.4)	0.4	–	–	–
Effect of foreign exchange rates	0.4	3.4	–	–	3.8
At 31 December 2021	**118.2**	**1,534.1**	**27.9**	**–**	**1,680.2**
Net book value at 31 December 2020	286.9	1,420.7	44.7	188.8	1,941.1
Net book value at 31 December 2021	**335.6**	**1,645.7**	**44.4**	**285.0**	**2,310.7**

The charge for depreciation to the income statement comprises the following:

	Years ended 31 December	
	2021 £m	2020 £m
Total depreciation charged on property, plant and equipment	**149.8**	144.1
Total depreciation charged on right-of-use assets (note 3.2)	**15.2**	7.9
Less:		
Depreciation charged on property, plant and equipment held for sale	**–**	(18.3)
Depreciation charged on right-of-use assets held for sale	**–**	(0.6)
Depreciation charged for continuing operations	**165.0**	133.1

3.1 Property, plant and equipment continued

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Gas thermal plants £m	Pellet production plant £m	Other £m	Total plant and equipment £m
Cost:						
At 1 January 2020	1,970.2	466.5	117.7	282.6	14.7	2,851.7
Additions at cost	29.1	–	–	–	0.5	29.6
Disposals	(6.3)	–	–	(10.4)	–	(16.7)
Transfers between categories	79.9	4.5	11.8	12.2	0.8	109.2
Transfers to assets held for sale	–	–	(129.5)	–	–	(129.5)
Effect of foreign exchange rates	–	–	–	(8.0)	–	(8.0)
At 1 January 2021	**2,072.9**	**471.0**	**–**	**276.4**	**16.0**	**2,836.3**
Additions at cost	–	–	–	0.8	0.1	0.9
Acquisitions	–	–	–	185.0	–	185.0
Disposals	(20.2)	–	–	(5.6)	(1.0)	(26.8)
Transfers from right-of-use assets	–	–	–	0.7	–	0.7
Transfers from Intangibles	–	–	19.3	–	–	19.3
Transfers between PPE categories	65.1	5.0	–	82.0	4.3	156.4
Effect of foreign exchange rates	–	–	–	8.0	–	8.0
At 31 December 2021	**2,117.8**	**476.0**	**19.3**	**547.3**	**19.4**	**3,179.8**
Accumulated depreciation and impairment:						
At 1 January 2020	1,013.6	15.0	11.3	62.5	9.3	1,111.7
Depreciation charge for the year	70.9	13.3	18.6	22.7	2.5	128.0
Asset obsolescence	223.2	–	0.1	–	–	223.3
Disposals	(5.2)	–	–	(5.0)	–	(10.2)
Transfers between categories	(4.1)	(0.2)	(0.1)	(0.1)	–	(4.5)
Transfers to assets held for sale	–	–	(29.9)	–	–	(29.9)
Effect of foreign exchange rates	–	–	–	(2.8)	–	(2.8)
At 1 January 2021	**1,298.4**	**28.1**	**–**	**77.3**	**11.8**	**1,415.6**
Depreciation charge for the year	70.3	12.1	–	45.0	2.8	130.2
Disposals	(11.2)	–	–	(4.2)	(0.8)	(16.2)
Transfers from right-of-use assets	–	–	–	0.7	–	0.7
Transfers between PPE categories	(1.0)	1.0	–	0.4	–	0.4
Effect of foreign exchange rates	–	–	–	3.4	–	3.4
At 31 December 2021	**1,356.5**	**41.2**	**–**	**122.6**	**13.8**	**1,534.1**
Net book value at 31 December 2020	774.5	442.9	–	199.1	4.2	1,420.7
Net book value at 31 December 2021	**761.3**	**434.8**	**19.3**	**424.7**	**5.6**	**1,645.7**

Issues and transfers reflect changes in the categorisation of assets during the period e.g. when an asset under construction is complete, it is transferred to the relevant depreciable asset category, or the issue of spare parts for use in repair and maintenance projects. When spare parts are utilised in such projects, the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

3.2 Leases

Accounting policy

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a lease is recognised on the balance sheet. A right-of-use asset and a corresponding lease liability are recognised.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. Incremental borrowing rates are calculated biannually. The borrowing rate for leased property is derived with reference to property yields specific to the location of the leased property and property type. For non-property leases, the borrowing rate is derived from a series of inputs including a risk-free rate based on UK Gilt curves and an adjustment for credit risk based on the Group's credit rating. The liability is subsequently adjusted for interest, repayments and other modifications.

Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets, and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right-of-use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Lease extension or termination options are included within the lease term when the Group, as the lessee, has the discretion to exercise the option and where it is probable that the option will be exercised.

Leases with a term shorter than 12 months or where the identified asset has a value below £3,500 are expensed to the income statement on a straight-line basis over the term of the agreement.

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Railcars £m	Vessels £m	Total £m
Cost and carrying amount:					
At 1 January 2020	24.2	5.9	8.1	–	38.2
Additions at cost	6.3	3.9	0.8	–	11.0
Disposals	(0.2)	(0.7)	–	–	(0.9)
Remeasurements	–	0.1	–	–	0.1
Transfers to assets held for sale	(6.5)	–	–	–	(6.5)
Effect of foreign exchange rates	(0.1)	(0.1)	(0.2)	–	(0.4)
At 1 January 2021	**23.7**	**9.1**	**8.7**	–	**41.5**
Additions at cost	0.2	7.0	4.1	33.3	44.6
Other movements	(0.5)	(4.2)	(0.3)	–	(5.0)
Transfers to PPE	(0.3)	(0.7)	–	–	(1.0)
Acquired in business combinations	4.7	4.1	17.0	34.6	60.4
Effect of foreign exchange rates	0.1	(0.1)	0.7	0.6	1.3
At 31 December 2021	**27.9**	**15.2**	**30.2**	**68.5**	**141.8**
Accumulated depreciation and impairment					
At 1 January 2020	3.8	2.0	1.0	–	6.8
Depreciation charge for the year	3.6	3.2	1.1	–	7.9
Disposals	(0.2)	(0.7)	–	–	(0.9)
Transfers to assets held for sale	(1.2)	–	–	–	(1.2)
Effect of foreign exchange rates	0.1	(0.3)	0.1	–	(0.1)
At 1 January 2021	**6.1**	**4.2**	**2.2**	–	**12.5**
Depreciation charge for the year	4.3	4.6	3.2	3.1	15.2
Other movements	(1.9)	(3.3)	(0.3)	–	(5.5)
Transfers to PPE	(0.1)	(0.7)	–	–	(0.8)
Effect of foreign exchange rates	0.1	–	0.5	–	0.6
At 31 December 2021	**8.5**	**4.8**	**5.6**	**3.1**	**22.0**
Net book value at 31 December 2020	17.6	4.9	6.5	–	29.0
Net book value at 31 December 2021	**19.4**	**10.4**	**24.6**	**65.4**	**119.8**

3.2 Leases continued

Lease liabilities

	Total £m
Carrying amount:	
At 1 January 2020	32.5
Additions	11.0
Remeasurements	0.1
Interest charged to the income statement	1.2
Payments	(8.8)
Transfers to liabilities directly associated with assets held for sale	(5.6)
Effect of foreign exchange rates	(0.2)
At 1 January 2021	**30.2**
Additions	44.7
Acquired in business combinations	61.1
Interest charged to the income statement	4.9
Payments	(17.9)
Other movements	0.2
Effect of foreign exchange rates	2.7
At 31 December 2021	**125.9**

The existence of termination, extension and purchase options have not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group also made total payments of £0.8 million (2020: £0.9 million) during the year in relation to short-term and low value leases. The value of commitments for short-term and low-value leases is immaterial.

The maturity of the gross undiscounted lease liabilities at 31 December 2021 is as follows:

	Total	
	2021 £m	2020 £m
Within one year	**21.2**	7.9
Within one to two years	**18.9**	5.9
Within two to five years	**46.4**	12.6
After five years	**78.4**	8.4
Total gross payments	**164.9**	34.8
Effect of discounting	**(39.0)**	(4.6)
Lease liabilities recognised in the balance sheet	**125.9**	30.2
Current portion	**15.1**	7.0
Non-current portion	**110.8**	23.2

The Group recognised the following charges from continuing operations relating to leases in the income statement:

	Total	
	2021 £m	2020 £m
Expense for short-term leases	**0.8**	0.8
Interest expense on leases	**4.9**	1.0
Depreciation and impairment expense on leases	**15.2**	7.3

3.3 ROC assets

The Group earns ROC assets, which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning sustainable biomass pellets to generate electricity at Drax Power Station, and generating renewable energy at a number of the Group's hydro plants. This note sets out the value of these assets that the Group held at the year end.

Accounting policy

ROCs are recognised as current assets in the period they are generated. The Group uses their fair value at initial recognition, based on anticipated sales prices, as deemed cost. The value of ROCs earned is recognised in the income statement as a reduction to cost of sales in that period.

Where the Customers business incurs an obligation to deliver ROCs to Ofgem, that obligation is provided for in the period incurred.

At each reporting date the Group reviews the carrying value of ROC assets held against updated anticipated sales prices. Where relevant, this takes account of agreed forward sale contracts and the likely utilisation of ROCs generated to settle the Group's own ROC obligations. Any impairment is recognised in the period incurred.

Historical experience indicates that the assumptions used in the valuation are reasonable; however, actual sales prices may subsequently differ from those assumed.

ROC valuations are comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are paid over to suppliers who presented ROCs in a compliance period on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Past experience indicates that the values arrived at are reasonable, but they remain subject to possible variation.

	Total 2021 £m	Total 2020 £m
Carrying amount:		
At 1 January	**139.6**	162.7
Earned from generation	**658.2**	489.5
Purchased from third-parties	**361.3**	504.1
Utilised by the Customers business	**(320.7)**	(376.0)
Sold to third-parties	**(537.0)**	(640.7)
At 31 December	**301.4**	139.6

Recognition of revenue from the sale of ROCs is described in further detail in note 2.2.

3.4 Inventories

The Group holds inventory of fuels and other consumable items that are used in the process of generating electricity, and raw materials used in the production of compressed wood pellets. This note shows the cost of biomass, coal, other fuels and plant consumables held at the end of the year.

Accounting policy

The Group's raw materials and fuel inventory are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of purchased fuel inventory includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs. The Group uses forward foreign currency exchange contracts to hedge the costs denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the inventory cost is recognised at the hedged value and all such gains and losses are included in cost of sales when they arise.

Both biomass and coal inventories are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing inventory volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure these measurements are sufficiently accurate.

3.4 Inventories continued

Coal inventories are verified by an independent inventory survey carried out by a suitably trained specialist and a provision is made where the survey indicates a lower level of inventory than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. Biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass inventory is surveyed using regularly calibrated radar scanning technology to support the methods outlined above.

The cost of manufactured fuel inventories includes all direct costs incurred in production and conversion including raw materials, labour, direct overheads and other costs incurred in bringing the inventories to their existing condition and location. It also includes an allocation of overheads, including depreciation and other indirect costs, based on normal operating capacity. Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overheads, are excluded from the cost of inventories and expensed as incurred.

Fibre inventory includes estimation in the conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required, using conversion factors estimated by management. Internal inventory counts are performed periodically at all locations.

	As at 31 December	
	2021 £m	2020 £m
Biomass – finished goods	**144.6**	157.0
Biomass – fibre and other raw materials	**12.8**	3.1
Coal	**8.4**	24.4
Other fuels and consumables	**33.3**	23.7
	199.1	208.2

The net realisable value of coal in the table above is stated after provisions of £0.9 million (2020: £4.8 million). The majority of this provision relates to inventory that the Group anticipates it will not be possible to utilise in the period before the coal units are closed in September 2022. No other inventory provisions have been recognised.

The cost of inventories recognised as an expense in the year ended 31 December 2021 was £1,352.0 million (2020: £1,045.8 million). This includes the value of write downs of inventory in the year described above of £0.9 million (2020: £4.8 million) and the reversal of previously written down inventories of £0.7 million (2020: £0.2 million). See note 2.1 for details of where costs of inventory recognised as an expense are presented in the Consolidated income statement.

3.5 Trade and other receivables and other contract-related assets

Trade receivables represent amounts owed by customers for goods or services provided that have not yet been paid. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered to customers that will be invoiced the following month.

Accounting policy

Trade and other receivables are initially measured at transaction price and subsequently measured at amortised cost.

The Group has access to receivables monetisation facilities under which amounts receivable can be sold to a third-party on a non-recourse basis. Receivables sold under such facilities are accounted for at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9, due to the objective of the business model being achieved by both collecting contractual cash flows and the selling of the financial assets. All receivables that fall under this business model are sold under these facilities where possible. These receivables are derecognised at the point of sale which is shortly after the initial recognition of the receivable balance. As a result, no fair value gains or losses have been recognised. Fees are recognised in the income statement as incurred.

Contingent consideration receivable is a financial asset. As the cash flows are not solely payments of principal and interest, it does not meet the criteria for recognition at either amortised cost or FVOCI, and is therefore recognised at fair value through profit and loss (FVTPL).

3.5 Trade and other receivables and other contract-related assets continued

	Years ended 31 December	
	2021 £m	2020 £m
Amounts falling due within one year:		
Trade receivables	**187.5**	158.0
Accrued income	**270.3**	211.7
Prepayments	**97.4**	92.5
Other receivables	**59.0**	63.1
Contingent consideration	**27.7**	–
	641.9	525.3

Trade receivables and accrued income principally represent sales of energy to counterparties within both the Generation and Customers businesses, with the remaining amounts relating to the Pellet Production business. At 31 December 2021, the Group had amounts receivable from one significant counterparty representing 10% of total trade receivables and accrued income (2020: two significant counterparties representing 12% of total trade receivables and accrued income).

Of total trade receivables and accrued income at 31 December 2021, £314.0 million (2020: £257.4 million) relates to the Customers business, £125.9 million related to the Generation business (2020: £112.3 million) and £17.9 million (2020: £nil) relates to the Pellet Production business.

The contingent consideration relates to the Group's disposal of the CCGT power stations in January 2021. Should the acquirer satisfy certain triggers in respect of the option to develop the Damhead Creek land disposed of as part of this sale, £29.0 million of contingent consideration would become payable to the Group from the acquirer. The estimated fair value of this contingent consideration is £27.7m. Contingent consideration is disclosed within current assets; however, the timing of the receipt would be dependent on when a trigger was to occur, which may be in a period greater than 12 months. See note 7.1 for further details on the contingent consideration.

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where payment is not yet due. The balances are included within accrued income. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. Contract assets at 31 December 2021 were £6.0 million (2020: £1.8 million)

Impairment of financial assets

Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables (including accrued income) and contract assets is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and, therefore, have substantially the same risk characteristics as the trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

The greatest concentration of credit risk exists in the Customers business. For the larger consumers within the Customers business (and also customers within the Generation and Pellet Production businesses) a provision matrix method is adopted. For the SME consumers within the Customers business, the risk is higher due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is complex and requires a provisioning tool that is more dynamic than the provision matrix method. The Group considers default to be when a customer is in breach of its terms.

The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt is greater than 365 days old and active recovery attempts have failed, or where there are insolvency issues relating to the customer.

As time has passed since the emergence of Covid-19 more information around customer collection rates and the impact of the pandemic has become available. Also, as the UK has progressed its vaccination programme, restrictions have been eased and the UK has moved closer towards operating as it was pre-Covid-19. As such, the level of uncertainty relating to the expected credit loss provision has reduced and is no longer considered a key source of estimation uncertainty.

3.5 Trade and other receivables and other contract-related assets continued

Combined probability method

The Group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of a debt on an individual account basis using a broad range of indicators that are specific to the customer. The likelihood of the debt becoming more than 365 days past due is assessed by the algorithm, along with the likelihood that the customer would then go on to default. The sophistication of the algorithm enables it to combine historical default experience with relevant economic conditions that may impact the probability of default.

As a result of Covid-19, in the prior year the Group increased its expectation of potential customer business failure rates and the resulting expected credit losses within the Customers business unit, particularly in relation to the SME customer base. The Group updated its provisioning methodology, using data for collection performance since the implementation of lockdown measures in the UK during March 2020 and expectations regarding future default rates, to take account of this increased risk.

The algorithm is trained on historical data and so incorporates experience of the Covid-19 impacted periods. A judgement overlay was included at the end of 2020 to capture Management's estimation of residual risk relating to Covid-19 not yet fully reflected within the data that the model has been trained on. As the model now incorporates Covid-19 experience, the 2021 judgement overlay has been removed.

Provision matrix method

Larger customers within the Group are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection. The rate of default increases once the balance is 30 days past due and subsequently in 30-day increments.

The movement in the overall allowance for expected credit losses on trade receivables is laid out in the following table:

	2021			2020		
	Combined probability method £m	Provision matrix method £m	Total £m	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	**51.4**	**5.0**	**56.4**	37.8	2.9	40.7
Amounts written off	**(41.5)**	**(2.0)**	**(43.5)**	(29.5)	(2.7)	(32.2)
Net additional amounts provided against	**34.5**	**(0.8)**	**33.7**	43.1	4.8	47.9
At 31 December	**44.4**	**2.2**	**46.6**	51.4	5.0	56.4
Gross trade receivables	**144.1**	**90.0**	**234.1**	172.1	42.3	214.4
Average ECL %	**31%**	**2%**	**20%**	30%	12%	26%

The year end provision represents 22% of the gross Customers trade receivables balance. If the coverage were to increase/decrease by 5%, the provision value would increase/decrease by £10.4 million.

The provision above relates to trade receivables in the Customers business. The risk of default within the Generation business is considered to be extremely low and the calculated provision is negligible. This is supported by strong historic collection rates and timely receipts.

The risk of default within the Pellet Production business is also considered to be extremely low with no provision held. This is also supported by strong historic collection rates and timely receipts. This is because the external customer base is small, and all customers have long-term supply contracts. Furthermore, payment terms with all customers are very short and invoices usually settled within 7 days with negligible levels of aged debt.

The expected credit loss provision calculated for other financial assets of the Group was negligible.

Credit and counterparty risk are disclosed in further detail in note 7.2.

The net charge to the income statement in 2021 for impairment losses on financial assets was £16.3 million (2020: £43.1 million). This is the net of the additional amounts provided against in relation to trade receivables of £33.7 million (2020: £47.9 million) less a £17.4 million benefit in the period in respect of resolution of legacy credit balances (2020: £4.8 million benefit).

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for SME consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December;

3.5 Trade and other receivables and other contract-related assets continued

Probability of default range %	2021 Estimated gross carrying amount at default £m	2021 Lifetime expected credit losses £m	2020 Estimated gross carrying amount at default £m	2020 Lifetime expected credit losses £m
80–100	**43.3**	**35.3**	36.8	29.7
50–79	**10.7**	**5.7**	16.5	8.9
26–49	**11.1**	**3.3**	18.7	5.6
0–25	**79.0**	**0.1**	100.1	1.7
Total	**144.1**	**44.4**	172.1	45.9
Other adjustments		–		5.5
Closing provision		**44.4**		51.4

The other adjustments of £nil (2020: £5.5 million) reflects the judgement overlay discussed above to capture management's estimation of residual risk relating to Covid-19 on future cash collection performance.

The value of provisions calculated using the Group's provision matrix method is set out below. This shows the risk profile in 30-day increments of the trade receivables, accrued income and contract assets of the Group's larger consumers within the Customers business, and customers within the Generation and Pellet Production businesses at 31 December 2021.

	2021 Expected credit loss rate %	2021 Estimated total gross carrying amount at default £m	2021 Lifetime expected credit losses £m	2020 Expected credit loss rate %	2020 Estimated total gross carrying amount at default £m	2020 Lifetime expected credit losses £m
Accrued income balances not yet due	**3%**	**278.9**	**8.6**	2%	215.2	3.5
Trade receivables days past due:						
Balances not yet due	**1%**	**70.8**	**0.4**	3%	22.9	0.7
Between 0-30 days	**1%**	**14.0**	**0.1**	15%	2.5	0.4
Between 31-60 days	**17%**	**1.2**	**0.2**	3%	11.3	0.3
Between 61-90 days	**13%**	**0.8**	**0.1**	37%	0.6	0.2
Over 90 days	**44%**	**3.2**	**1.4**	68%	5	3.4
Trade receivables total	**2%**	**90.0**	**2.2**	12%	42.3	5.0
Total	**3%**	**368.9**	**10.8**	3%	257.5	8.5

The expected credit loss rate is a weighted average for the portfolio of larger trade receivables associated with the Customers business. Contract assets, included within accrued income, and the majority of the trade receivables balances not yet due are held in the Generation and Pellet Production businesses where the risk of default is considered to be extremely low and immaterial to provide for. This is supported by strong historic collection rates and timely receipts.

3.6 Contract costs

The Group incurs costs of obtaining contracts in the Customers business.

Accounting policy

Management expects that incremental broker fees paid to intermediaries as a result of obtaining electricity and gas contracts are recoverable. The Group has therefore capitalised them as contract costs at the point the fee is paid. The fees are amortised over the contract period in line with the recognition of revenue and are charged to cost of sales. The balance is included within prepayments in note 3.5. This amount includes both current and non-current balances. No impairment losses were recognised in either year. The reconciliation from opening to closing contract costs is as follows:

	Years ended 31 December	
	2021 £m	2020 £m
At 1 January	**40.1**	42.3
Additions	**14.0**	26.9
Amortisation	**(30.4)**	(29.1)
At 31 December	**23.7**	40.1

3.7 Trade and other payables and contract-related liabilities

Trade and other payables represent amounts the Group owes to its suppliers (for trade purchases and ongoing costs), taxes and social security amounts due in relation to the Group's role as an employer, and other creditors that are due to be paid in the ordinary course of business. The Group makes accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current period (e.g. fuel received but for which the Group has not yet been invoiced).

Accounting policy

Trade and other payables are measured at amortised cost.

The Group facilitates a supply chain finance scheme, a form of reverse factoring under which certain suppliers can obtain early access to funding. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to fall away. The amount due is recognised in trade payables.

The Group also has access to payment facilities, utilised to leverage scale and efficiencies in transaction processing. Under these facilities the Group benefits from a short extension to payment terms, within a normal working capital cycle, for a small fee. The original liability is derecognised and the amount due to the facility provider is recognised in other payables. Fees are recognised in the income statement in the period incurred.

The Group does not include trade and other payables in its calculation of net debt, see note 4.3.

	As at 31 December	
	2021 £m	2020 £m
Trade payables	**147.8**	112.9
Fuel accruals	**50.3**	57.9
Energy supply accruals	**362.1**	326.2
Other accruals	**269.8**	222.0
Other payables	**366.5**	176.9
Contract liabilities	**14.6**	11.1
	1,211.1	907.0

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables are the same as their fair values, due to their short-term nature.

The Group has not utilised any Covid-19 Government support schemes in the current or prior year.

Trade payables includes £50.4 million (2020: £43.7 million) related to reverse factoring. Other payables include £62.2 million (2020: £63.7 million) due under other payment facilities.

3.7 Trade and other payables and contract-related liabilities continued

Energy supply accruals includes £264.3 million (2020: £222.9 million) in relation to the Group's obligation to deliver ROCs arising from Customers activities. The remaining balance principally comprises third-party grid charge accruals of £48.2 million (2020: £35.4 million) and Feed-in-Tariff accruals of £19.8 million (2020: £31.6 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the UK Emission Trading Scheme (UK ETS). In the prior year the Group was under the EU Emission Trading Scheme (EU ETS) and therefore recognised a liability in respect of its unsettled obligations to deliver emissions allowances under the EU ETS. Other accruals at 31 December 2021 includes £39.3 million (2020: £37.5 million) with respect to the Group's estimated liability to deliver carbon emissions allowances. Allowances are purchased in the market and are recorded at cost.

Other accruals also includes accruals for capital and operating expenditure where the invoice has not yet been received.

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the multi-year contract. The balance reduces as revenue is subsequently recognised in the following periods, offset by further advance consideration received. The reconciliation of opening to closing contract liabilities is as follows:

	Years ended 31 December	
	2021 £m	2020 £m
At 1 January	**11.1**	21.8
Revenue recognised in the year that was included in the contract liability at the start of the period	**(5.4)**	(13.3)
Additions as a result of cash received from customers in the period not yet recognised in revenue	**8.9**	2.6
At 31 December	**14.6**	11.1

Contract liabilities at 31 December 2021 includes £nil due after more than one year (2020: £3.5 million).

Section 4: Financing and capital structure

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. It is the Group's policy to invest available cash on hand in short-term, low-risk bank accounts or deposit accounts.

	As at 31 December	
	2021 £m	2020 £m
Cash and cash equivalents	317.4	289.8

Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when contracts are settled and the collateral is returned.

The cash and cash equivalents balance above includes a net £172.8 million (2020: £4.5 million) of collateral receipts from counterparties. The increase in collateral is predominantly due to the significant price increases seen in the power, gas and carbon markets. See note 7.6 for details on collateral requirements the Group has met through its available non-cash credit facilities.

4.2 Borrowings

Accounting policy

The Group measures all debt instruments (whether financial assets or financial liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the expected life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the repayment date is fixed regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and recognised over the life of the instrument as part of the effective interest rate, if draw down is probable. If draw down is not probable they are recognised on a systematic basis, over the period the Group is able to draw down.

Fees that are paid for the availability of a facility, such that the amount and timing of draw down can vary at the Group's discretion (such as a revolving credit facility, or RCF) are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses arising recognised as a component of net FX gains or losses in the period they arise. The Group hedges foreign currency risk in accordance with the policy set out in note 7.2. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the balance sheet.

4.2 Borrowings continued

The Group's net borrowings at each year end were as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Secured borrowing at amortised cost:		
2.625% loan notes 2025 €250m[1]	**207.2**	220.1
6.625% loan notes 2025 $500m[2]	**367.0**	362.4
Index-linked loan £35m[3]	**40.6**	38.4
UK infrastructure private placement facilities (2019)[4]	**370.0**	367.5
UK infrastructure private placement facilities (2020)[5]	**201.2**	77.3
CAD term facility C$300m[6]	**175.0**	–
Total borrowings	**1,361.0**	1,065.7
Split between:		
Current liabilities	**40.6**	–
Non-current liabilities	**1,320.4**	1,065.7

(1) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 3.24%

(2) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.9%

(3) Provides a term loan facility maturing in March 2022. On maturity the principal amount (£35.0m) multiplied by the index ratio (UK RPI) will become payable. Interest is payable on the loan at a fixed rate of 5.3% multiplied by the index ratio. As at 31 December 2021 the value of the index ratio added to the principal amount was £5.6 million (2020: £3.4 million)

(4) Provides committed facilities totalling £375m with a range of maturities extending out to between 2024 and 2029. Interest rate swaps have been used to fix floating rates. This equates to an effective sterling interest rate of 3.3%

(5) Provides committed facilities totalling £98m and €126.5m with a range of maturities extending out to between 2024 and 2030. Interest rate swaps have been used to fix sterling floating rates on sterling facilities. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments on euro facilities. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 3.7%

(6) This facility matures in 2024 with the option to extend by two years and has a customary margin grid reference over the Canadian dollar offered rate (CDOR). No interest rate or cross-currency interest rate swaps are in place to hedge the facility, so the Group is exposed to movements in both floating interest rates and movements in the Canadian dollar

Current borrowings relate to the repayment of the Group's index-linked loan. The loan is due for repayment on 31 March 2022.

In 2020 the Group entered a new infrastructure term loan facility agreement. At 31 December 2020 £53.0 million and €31.5 million were drawn and £45.0 million and €95.0 million were committed. On 18 February 2021, the Group drew down the remaining committed amounts under its 2020 infrastructure term loan facilities agreement.

On acquisition of Pinnacle, the Group acquired three senior debt facilities denominated in Canadian dollars totalling C$441.0m. The facilities comprised a revolver, delayed draw and term loan. Subsequently, on 13 July 2021, the Group completed the refinancing of all three Canadian dollar facilities acquired from Pinnacle. The new facilities include a C$300 million term loan and C$10 million RCF. The balance on the facilities were repaid from the cash proceeds received from the new facility and the Group's existing cash reserves.

The Group's committed £300 million RCF had no cash drawings as at 31 December 2021 or 31 December 2020. The Group also has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 4.4, which are utilised to accelerate working capital cash inflows and defer cash outflows. See note 2.7 for further details on the Group's cash and committed facilities.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.49% (as at 31 December 2020: 3.88%).

Compliance with loan covenants

The Group has customary financial covenants, principally in relation to consolidated net income and the consolidated net income to debt ratio. The consolidated net income to debt ratio broadly equates to an EBITDA to net debt calculation and is calculated in line with the Group's financial covenant requirements in the loan facility agreements. The Group is required to test its financial covenants every six months and has complied with all financial covenants during the current year and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants in future periods under all reasonably possible downside scenarios. See the Viability statement on page 74 for further details on the scenarios considered. The Group also has conditions placed on its dividend payments as a result of the financing facilities (see note 2.10).

4.2 Borrowings continued

Reconciliation of borrowings

The table below shows the movement in borrowings during the current and previous year:

	Year ended 31 December 2021		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	**1,085.3**	**(19.6)**	**1,065.7**
Cash movements:			
Drawdown of 2020 Infrastructure private placement facilities	**130.8**	**(0.5)**	**130.3**
Repayment of debt acquired from Pinnacle	**(253.1)**	**–**	**(253.1)**
Drawdown of C$300m term facility	**173.1**	**(0.8)**	**172.3**
Other cash movements	**(3.2)**	**–**	**(3.2)**
Non-cash movements:			
Borrowings acquired on acquisition of Pinnacle (note 5.1)	**256.3**	**–**	**256.3**
Indexation of linked loan	**2.2**	**–**	**2.2**
Amortisation of deferred finance costs (note 2.5)	**–**	**5.7**	**5.7**
Amortisation of USD loan note premium	**(0.3)**	**–**	**(0.3)**
Effect of foreign exchange rates	**(14.9)**	**–**	**(14.9)**
Borrowings at 31 December	**1,376.2**	**(15.2)**	**1,361.0**

	Year ended 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,267.5	(22.3)	1,245.2
Cash movements:			
Extension of ESG facility	–	(0.8)	(0.8)
Drawdown of 2025 €250 million loan notes	225.5	(3.4)	222.1
Repayment of ESG facility	(125.0)	–	(125.0)
Drawdown of 2020 Infrastructure private placement facilities	81.4	(3.8)	77.6
Repayment of 2022 fixed loan notes	(350.0)	–	(350.0)
Non-cash movements:			
Acceleration of deferred finance costs in relation to previous facilities (note 2.5)	–	4.8	4.8
Indexation of linked loan	0.5	–	0.5
Amortisation of deferred finance costs (note 2.5)	–	5.9	5.9
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of foreign exchange rates	(14.2)	–	(14.2)
Borrowings at 31 December	1,085.3	(19.6)	1,065.7

4.3 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 4.2) and subtracting cash and cash equivalents (note 4.1). The table below reconciles net debt in terms of changes in these balances across the year:

	Years ended 31 December	
	2021 £m	2020 £m
Net debt at 1 January	**(775.9)**	(841.1)
Increase/(decrease) in cash and cash equivalents	**27.3**	(114.2)
(Increase)/decrease in borrowings	**(310.2)**	165.3
Effect of changes in foreign exchange rates	**15.2**	14.1
Net debt at 31 December	**(1,043.6)**	(775.9)

Borrowings include listed bonds, bank debt and RCFs only to the extent drawn in cash, net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities and trade and other payables.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments. The exclusion of lease liabilities from the calculation of net debt is also consistent with the Group's covenant reporting requirements.

4.3 Reconciliation of net debt continued

The Group does not include balances related to supply chain financing or factoring in the definition of net debt. These facilities do not increase the Group's working capital cycle beyond the Group's standard payment terms and are only short-term balances. Therefore, the balances do not meet the Group's definition of borrowings and so are excluded from net debt.

A reconciliation of the change in borrowings during the year is set out in the table on note 4.2.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments and interest in respect of the Group's US dollar (USD) and euro (EUR) denominated debt (see note 4.2). If USD and EUR balances were translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be impacted. The table below reconciles net debt excluding the impact of hedging instruments, as disclosed in the table above, to net debt including the impact of hedging instruments through translating the borrowings at the hedged rates:

	Years ended 31 December	
	2021 £m	2020 £m
Net debt excluding the impact of hedging instruments	**(1,043.6)**	(775.9)
Impact of hedging instruments	**(64.4)**	(43.2)
Net debt including the impact of hedging instruments	**(1,108.0)**	(819.1)

4.4 Notes to the consolidated cash flow statement

Cash generated from operations

Cash generated from operations is the starting point of the Group's cash flow statement on page 187. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit/(loss) for the year to the amount of cash generated from the Group's operations.

	Years ended 31 December	
	2021 £m	2020 £m
Profit/(loss) for the year – continuing	**55.1**	(194.6)
Profit for the year – discontinued	**24.1**	36.7
Adjustments for:		
Interest payable and similar charges	**70.9**	74.0
Interest receivable	**(0.3)**	(0.6)
Effect of foreign exchange rates	**1.3**	(1.0)
Tax charge/(credit)	**68.1**	(26.0)
RDEC credit	**(7.5)**	(5.7)
Depreciation of property, plant and equipment	**149.8**	144.1
Amortisation of intangible assets	**34.4**	38.4
Depreciation of right-of-use assets	**15.2**	7.9
Income from associates	**(0.3)**	–
Asset obsolescence charge	**–**	239.4
Losses on disposal	**9.4**	6.0
Profit on disposal of subsidiaries	**(16.2)**	–
Certain remeasurements of derivative contracts[1]	**(74.6)**	31.4
Defined benefit pension scheme current service cost	**6.3**	8.4
Defined benefit pension scheme past service (credit)/cost	**(2.6)**	7.4
Non-cash charge for share-based payments	**7.4**	5.2
Provision movements recognised in the income statement	**–**	20.4
Operating cash flows before movement in working capital	**340.5**	391.4
Changes in working capital:		
Decrease in inventories	**37.4**	87.1
(Increase)/decrease in receivables	**(58.0)**	25.1
Increase/(decrease) in payables	**209.7**	(98.4)
(Increase)/decrease in ROC assets	**(161.8)**	23.1
Total cash released from working capital	**27.3**	36.9
Defined benefit pension scheme contributions	**(13.3)**	(14.9)
Cash generated from operations	**354.5**	413.4

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the income statement and cash realised from derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve pending release to the income statement in the period the hedged transaction occurs, as well as rebasing impact.

4.4 Notes to the consolidated cash flow statement continued

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. When compared to the year end position, such measures have been utilised to a broadly consistent level throughout the year unless otherwise stated. The impact of these actions on the cash flows of the Group is described below.

The cash flow impacts described below are based on the estimated impact on the current year when compared to the cash flows that would have been received had the Group not taken these actions. The current year impact is also adjusted to take account of actions taken in prior years, which have accelerated cash flows that would otherwise have been received in the current year had no actions been taken. The intention is to present the overall cumulative impact on the current year cash flow from the actions taken.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £22.3 million outflow (2020: £74.0 million outflow), due to fewer ROCs being sold at the end of 2021 compared to the end of the previous year. This is reflected as an increase (2020: increase) in ROC assets and is a component of the overall net increase of £161.8 million (2020: decrease of £23.1 million) in ROC assets shown in the table above. The level of ROCs generated, purchased and sold during the period is set out in note 3.3. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December 2021 (2020: £nil).

Utilisation of both of these methods to accelerate cash flows is higher around the middle of ROC compliance periods (1 April to 31 March) as the Group has generated a large amount of ROCs but energy suppliers do not yet require ROCs to settle their obligation. At the start of the compliance period the Group has not generated large amounts of ROCs, and towards the end of the compliance period energy suppliers are purchasing ROCs to settle their obligation, therefore utilisation of these methods is lower as the Group has less ROCs available.

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2021, this generated a working capital outflow of £32.0 million (2020: £26.7 million outflow) due to less cash being released from rebased trades at the end of 2021 than in the prior year. This is reflected as an adjustment to derivative remeasurements in the table on page 224. The total cash benefit released from related trades that remained outstanding at 31 December 2021 was £48.1 million (2020: £80.1 million). This cash benefit is made up of £nil (2020: £24.4 million) released from foreign currency contracts and £48.1 million (2020: £55.7 million) from cross-currency interest rate swaps.

The Customers business has access to a £200.0 million facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis, which generated a net cash inflow of £30.0 million in the year ended 31 December 2021 (2020: net cash inflow of £7.8 million), reflected as a reduction in receivables in the table on page 224. Utilisation of the facility was £200.0 million at 31 December 2021 (2020: £170.0 million).

The Customers' receivables facility was due to mature in June 2022. Subsequent to the year end the Group has refinanced this facility, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million.

There has been significant volatility in power and commodity markets during 2021. The Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2021 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of lodging collateral resulted in a cash inflow of £168.3 million in 2021 (2020: £12.0 million inflow) reflected as an increase (2020: increase) in payables in the table on page 224. See notes 4.1 and 7.6 for further details on cash collateral receipts and non-cash collateral postings respectively.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2021, the Group had trade payables of £50.4 million (2020: £43.7 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2021 was £62.2 million (2020: £63.6 million).

4.4 Notes to the consolidated cash flow statement continued

Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash changes is provided below:

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	**1,065.7**	**30.2**	**1,095.9**
Cash flows from financing activities	**46.3**	**(13.2)**	**33.1**
Impact of foreign exchange rates	**(14.9)**	**2.7**	**(12.2)**
Other movements	**7.6**	**45.1**	**52.7**
Acquisition of subsidiary	**256.3**	**61.1**	**317.4**
Balance at 31 December	**1,361.0**	**125.9**	**1,486.9**

	As at 31 December 2020		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,245.2	32.5	1,277.7
Cash flows from financing activities	(176.1)	(8.8)	(184.9)
Impact of foreign exchange rates	(14.2)	(0.2)	(14.4)
Other movements	10.8	6.7	17.5
Balance at 31 December	1,065.7	30.2	1,095.9

Other movements principally relate to the amortisation of deferred finance costs, discounting of lease liabilities and lease additions in the year.

4.5 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2021 £m	2020 £m
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each (2020: 865,238,823)	**100.0**	100.0
Issued and fully paid:		
2021: 413,068,027 ordinary shares of 11 16/29 pence each (2020: 410,848,934)	**47.7**	47.5

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2021 (number)	2020 (number)
At 1 January	**410,848,934**	410,475,731
Issued under employee share schemes	**2,219,093**	373,203
At 31 December	**413,068,027**	410,848,934

The Company has only one class of shares, which are ordinary shares of 11 16/29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

4.5 Equity and reserves continued

Shares issued under employee share schemes

Throughout January to December 2021, a total of 2,219,093 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, Performance Share Plan and Bonus Matching Plan (deferred shares).

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Share premium	
	2021 £m	2020 £m
At 1 January	**430.0**	429.6
Issue of share capital	**2.2**	0.4
At 31 December	**432.2**	430.0

Other reserves

Other equity reserves reflect the impact of certain historical transactions, which are described under the table below:

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Treasury shares £m	Total other reserves £m
At 1 January 2020	1.5	44.7	710.8	(50.4)	706.6
Exchange differences on translation of foreign operations	–	(9.3)	–	–	(9.3)
At 31 December 2020	**1.5**	**35.4**	**710.8**	**(50.4)**	**697.3**
Exchange differences on translation of foreign operations	–	8.7	–	–	8.7
At 31 December 2021	**1.5**	**44.1**	**710.8**	**(50.4)**	**706.0**

The capital redemption and treasury share reserves arose when the Group completed a share buy-back programmes.

Exchange differences relating to the translation of the net assets of the Group's US and Canadian-based subsidiaries from their functional currencies (USD and CAD) into sterling for presentation in these consolidated financial statements are recognised in the translation reserve.

Movements in the hedge reserve and the cost of hedging reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9, are set out in notes 7.3 and 7.4.

4.6 Non-controlling interests

Accounting policy

The Group elects on an acquisition-by-acquisition basis whether to measure non-controlling interests at their proportionate share of the identifiable net assets of the acquiree at the acquisition date, or at fair value. The Group has elected to use the proportionate share of the identifiable net assets for the Pinnacle acquisition. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and the fair value of any consideration paid or received is recognised in equity, within retained profits.

The Group has three subsidiary undertakings with a non-controlling interest. These subsidiaries were acquired during the year through the acquisition of Pinnacle. The total value of the non-controlling interest at the acquisition date of Pinnacle was £39.6 million.

When the Group acquired Pinnacle the non-controlling interest in Alabama Pellets LLC (APLLC) was 30%. In July 2021, the Group acquired a further 20% interest in APLLC for £21.5 million ($29.7 million), increasing the Group's total interest in APLLC to 90% and reducing the non-controlling interest to 10%. This resulted in a £0.2 million decrease recognised in equity, within retained profits, for the difference between the adjustment to non-controlling interests and the fair value of any consideration paid.

4.6 Non-controlling interests continued

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of each entity above and its subsidiaries that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

At 31 December 2021	Non-controlling interest %	Profit/(loss) for the year £m	Total comprehensive income/(loss) £m	Total equity £m	Distributions to non-controlling interests £m
Alabama Pellets LLC	10%	(9.9)	(9.9)	124.4	12.9
Lavington Pellet Inc.	25%	0.2	0.2	22.1	4.3
Smithers Pellet Inc.	30%	(1.3)	(1.3)	19.6	6.9
Total		**(11.0)**	**(11.0)**	**166.1**	**24.1**

Summarised Statement of total comprehensive income

At 31 December 2021	Revenue £m	Profit/(loss) for the year £m	Total comprehensive income/(loss) £m	Total comprehensive income/(loss) attributable to the owners of the company £m	Total comprehensive income/(loss) attributable to the non-controlling interests £m
Alabama Pellets LLC	25.6	(9.9)	(9.9)	(8.2)	(1.7)
Lavington Pellet Inc.	29.3	0.2	0.2	0.1	0.1
Smithers Pellet Inc.	11.8	(1.3)	(1.3)	(0.9)	(0.4)
Total	**66.7**	**(11.0)**	**(11.0)**	**(9.0)**	**(2.0)**

Summarised Balance sheet

At 31 December 2021	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m
Alabama Pellets LLC	126.4	14.7	(16.1)	(0.6)	124.4
Lavington Pellet Inc.	18.0	6.9	(2.1)	(0.7)	22.1
Smithers Pellet Inc.	18.3	2.0	(0.7)	–	19.6
Total	**162.7**	**23.6**	**(18.9)**	**(1.3)**	**166.1**

Summarised Cash flow

At 31 December 2021	Net cash inflow/ (outflow) from operating activities £m	Net cash inflow/ (outflow) from investing activities £m	Net cash inflow/ (outflow) from financing activities £m	Net cash inflow/ (outflow) £m
Alabama Pellets LLC	(2.9)	(47.9)	50.6	(0.2)
Lavington Pellet Inc.	2.2	(0.5)	(0.1)	1.6
Smithers Pellet Inc.	(0.7)	(2.5)	3.6	0.4
Total	**(1.4)**	**(50.9)**	**54.1**	**1.8**

Further information on changes during the year in the Group's non-controlling interests is given in the Consolidated statement of changes in equity.

Section 5: Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

5.1 Acquisitions

Accounting policy

Business combinations are accounted for using the acquisition method. Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired, and the liabilities assumed are measured at their fair value on the acquisition date. Amounts relating to the settlement of pre-existing relationships are recognised in the Consolidated income statement with a corresponding adjustment to the consideration transferred to reflect that part of the consideration is deemed to relate to the settlement of the pre-existing relationship.

From the acquisition date the assets and liabilities of acquired subsidiaries are recognised in the Consolidated balance sheet, and the revenues and profit or loss of the acquired subsidiaries are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired.

Share based payment awards held by employees of the acquired company that are voluntarily replaced are recognised as post-acquisition remuneration. Share based payment awards held by employees of the acquired company that are obliged to be replaced are allocated between post-acquisition remuneration, treated as an expense, and pre-acquisition remuneration which is treated as part of the overall consideration.

Acquisition of Pinnacle

The Group announced the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) on 8 February 2021. The acquisition was approved by shareholders on 31 March 2021 and subsequently completed on 13 April 2021. The primary reason for the acquisition is to advance the Group's biomass strategy by more than doubling its biomass production capacity, significantly reducing its cost of biomass production and adding a major biomass supply business underpinned with high-quality Asian and European counterparties.

The Group signed an agreement for the acquisition of 100% of the issued share capital of Pinnacle by Drax Canadian Holdings Inc., a wholly owned subsidiary of the Group (the acquisition). The acquisition was implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada, at a price of C$11.30 per share (representing a premium of 13% based on the closing market price on 5 February 2021 of C$10.04 per share) and therefore valuing the fully diluted equity of Pinnacle at C$385 million (£222 million).

The acquisition was financed from the Group's existing cash reserves, which included amounts drawn down in February under the infrastructure term loan facilities, agreed in 2020 (see note 4.2).

Transaction costs in relation to the acquisition were £8.9 million, of which £1.0 million was recognised in the prior year and £7.9 million has been recognised as an expense in the current year within Operating and administrative expenses. The Group has also incurred integration costs of £4.1 million to date, also recognised within Operating and administrative expenses. See note 2.7.

The purchase consideration consisted of the following:

	£m
Cash paid to ordinary shareholders	218.1
Cash paid to settle existing share-based payment awards	4.2
Total purchase consideration	**222.3**

There was no contingent consideration in relation to the acquisition.

Acquisition date fair values

As part of the accounting for the Pinnacle acquisition, the assets and liabilities acquired are measured at fair value on the acquisition date. Property, plant and equipment have been measured at fair value using a Depreciated Replacement Cost (DRC) approach. This approach estimates what it would cost to produce or construct a modern equivalent asset of similar capacity and utility. The cost is then adjusted to reflect:

- physical depreciation (such as wear and tear, decay, deterioration due to age and loss not prevented by current maintenance);
- functional obsolescence (the loss caused by internal factors resulting in a decrease in the ability to serve the purpose for which it was manufactured); and
- economic obsolescence (the loss in value caused by external adverse conditions, such as poor market demand for a product, industrial reorientation, and excessive governmental regulations).

5.1 Acquisitions continued

The valuation is performed by an independent valuation specialist. A fair value uplift of £23.6 million (C$40.8 million) has been recognised on the carrying value of Property, plant and equipment acquired as part of the acquisition. If different assumptions and inputs were used this could have resulted in a different fair value.

The Pinnacle business held a number of long-term customer contracts at the acquisition date. As part of the acquisition accounting, these existing customer contracts were required to be measured at their fair value. In determining the fair value of these contracts estimates are required for inputs to the valuation such as the margin associated with these customer contracts, the required return for assets used to generate these contract revenues, retention rates, and an appropriate discount rate based on the risk profile of these contracts. A change to any of these inputs can significantly impact the fair value calculated for these customer contracts. Details of the valuation approach and the key inputs for the customer contracts are disclosed in note 5.2. An asset with a fair value of £35.9 million (C$62.1 million) has been recognised in relation to customer contracts at acquisition.

The Group and Pinnacle had a pre-existing relationship relating to long-term supply contracts under which Pinnacle supplied the Group with biomass pellets at a fixed price. Valuing the pre-existing relationship compared to current market transactions involves estimation of what the pricing for an identical biomass contract would be at the acquisition date, which, given the highly illiquid nature of the biomass market, with very few spot market transactions and contracts being negotiated bilaterally with no quoted market price, is inherently judgemental. On acquisition the Group assessed the terms of these supply contracts compared to current market transactions for an identical contract. Pricing for current market transactions for the purpose of this exercise was assessed based on the existing portfolio of the Group and Pinnacle contracts. These supply contracts were determined to be consistent with the pricing for current market transactions for an identical contract and the settlement provision for terminating these contracts would have been immaterial. As a result, no consideration has been attributed to the settlement of the pre-existing relationship and therefore no gain or loss relating to the pre-existing relationship has been recognised.

The fair values of the acquired Property, plant and equipment, contract asset and pre-existing relationship are inherently judgemental and involve a high degree of estimation, meaning valuations based on different methodologies or assumptions may have resulted in a materially different fair value. However, these valuations have been performed by specialists, using appropriate methodologies and information. No new information is expected to become available within the next financial year that would be relevant for the acquisition date fair values. Therefore, these valuations are not expected to be revisited and consequently do not have a significant risk of a material adjustment to the carrying amounts within the next financial year. As such these fair value measurements have not been disclosed as key sources of estimation uncertainty for the Group.

The Group has a one year measurement period, from the acquisition date, to finalise the acquisition accounting. Provisional fair values of the identifiable assets acquired, liabilities assumed and non-controlling interest as at 13 April 2021 were as follows:

	Fair value £m
Property, plant and equipment and intangible assets	326.2
Right-of-use assets	60.4
Other non-current assets	4.3
Inventories	26.8
Trade and other receivables	29.4
Cash and cash equivalents	18.8
Trade and other payables	(37.1)
Lease liabilities	(61.1)
Borrowings	(256.3)
Deferred tax liabilities	(12.1)
Other liabilities	(3.3)
Net identifiable assets acquired	**96.0**
Less: non-controlling interest	(39.6)
Add: goodwill	165.9
Net assets acquired	**222.3**

Goodwill on acquisition predominantly relates to the value of uncontracted revenues and synergies expected to be realised by combining Pinnacle with the Group's existing pellet business. The increased size of the Group's pellet business is expected to enable greater flexibility, opportunities to optimise the Group's pellet production operations and logistics across the enlarged portfolio and to increase knowledge. The goodwill is not expected to be deductible for tax purposes. See note 5.2 for further details on goodwill. Goodwill is required to be denominated in the functional currency of the operations to which the goodwill is allocated to. The goodwill on the Pinnacle acquisition relates to both CAD and USD functional currency operations. This resulted in goodwill of C$97.4 million and $151.9 million which, when translated at the acquisition date, resulted in £165.9 million of goodwill. These goodwill balances are translated at the balance sheet rates into the Group's presentational currency of GBP (see note 5.2 for further details).

The non-controlling interest has been measured at the proportionate share of the identifiable net assets of the acquiree at the acquisition date (see note 4.6 for further details on non-controlling interests).

5.1 Acquisitions continued

Acquired receivables

The Group acquired receivables with a fair value of £22.9 million (C$39.6 million). These trade receivables had a gross contracted value of £22.9 million (C$39.6 million). No provision for receivables was recognised due to the risk of default within the Pinnacle business being considered to be extremely low, as explained further in note 3.5.

Contingent liabilities

No contingent liabilities or indemnification assets have been recognised on acquisition of Pinnacle.

Revenue and profit contribution

From the acquisition date to 31 December 2021 £213.7 million of revenue and £17.7 million of net loss has been recognised in the Consolidated income statement relating to Pinnacle. If the acquisition had occurred on 1 January 2021, being the start of the current reporting period, it is estimated that Group consolidated revenue of £5,230.5 million and Group consolidated net profit of £69.9 million would have been recognised in the Consolidated income statement. In determining these amounts, it has been assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

Reconciliation of net cash outflow from investing activities

	Cash outflow/(inflow) £m
Cash paid to acquire Pinnacle	222.3
Less balances acquired:	
Cash	(18.8)
Net cash outflow	**203.5**

5.2 Goodwill and intangible assets

Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets can be acquired in business combinations or purchased separately.

Accounting policy

Intangibles acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated useful lives. Useful lives are reviewed at each balance sheet date. No changes to useful lives were made during the period. Amortisation calculations are specific to each category of assets and are explained in further detail below.

Goodwill is measured as the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of that operation and therefore denominated in the functional currency of the operation to which it is allocated. Goodwill denominated in a foreign currency is translated at the balance sheet rate. Exchange differences arising on retranslation are recognised in other comprehensive income.

The IFRS Interpretations Committee (IFRS IC) finalised its agenda decision regarding how to account for cost of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. The agenda decision concluded that the configuration and customisation costs do not normally result in an intangible asset and should therefore be recognised as an expense.

5.2 Goodwill and intangible assets continued

Any changes resulting from this agenda decision would be a change in accounting policy. Agenda decisions should be implemented on a timely basis with entities entitled to sufficient time to implement any necessary accounting policy changes. Assessing the impact of the agenda decision on the Group requires detailed analysis of the historical amounts capitalised. Given the volume of transactions and complexity of the projects included in the analysis this process is still ongoing. The Group expects to conclude its analysis in the first half of 2022. Accordingly, the Group plans to adopt a new accounting policy for SaaS arrangements with effect from 1 January 2022 and the results of this change will be reflected in the 2022 Financial Statements.

Carrying amounts are assessed for indicators of impairment at each balance sheet date. The customer-related assets are attributable to the Opus Energy CGU and the Pinnacle CGU. The brand is attributed to the Opus Energy CGU. Details of the impairment test relating to these CGUs are included in note 2.4.

The Group has incurred research and development expenses of £11.4 million (2020: £11.5 million), which are included in Operating and administrative expense in the Consolidated income statement.

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Other intangibles £m	Goodwill £m	Total £m
Cost and carrying amount:							
At 1 January 2020	211.0	11.3	119.3	21.0	–	248.2	610.8
Additions at cost	–	–	8.6	–	–	–	8.6
Transfers from Property, plant and equipment	–	–	5.7	–	–	–	5.7
Disposals	–	–	(1.4)	–	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	–	(0.5)
Effect of foreign exchange rates	–	–	(0.2)	–	–	–	(0.2)
At 1 January 2021	**211.0**	**11.3**	**131.5**	**21.0**	**–**	**248.2**	**623.0**
Additions at cost	8.2	–	14.1	–	–	–	22.3
Transfers from/(to) Property, plant and equipment	–	–	1.2	(19.3)	–	–	(18.1)
Acquired in business combinations	35.9	–	0.4	–	0.2	165.9	202.4
Effect of foreign exchange rates	0.4	–	–	–	0.1	2.2	2.7
At 31 December 2021	**255.5**	**11.3**	**147.2**	**1.7**	**0.3**	**416.3**	**832.3**
Accumulated amortisation							
At 1 January 2020	101.7	3.4	50.6	–	–	–	155.7
Charge for period	24.9	1.1	12.4	–	–	–	38.4
Asset obsolescence (note 2.7)	–	–	0.8	–	–	–	0.8
Eliminated on disposal	–	–	(1.4)	–	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	–	(0.5)
At 1 January 2021	**126.6**	**4.5**	**61.9**	**–**	**–**	**–**	**193.0**
Charge for period	22.8	1.1	10.5	–	–	–	34.4
Acquired in business combinations	0.1	–	–	–	0.1	–	0.2
Effect of foreign exchange rates	(0.1)	–	–	–	(0.1)	–	(0.2)
At 31 December 2021	**149.4**	**5.6**	**72.4**	**–**	**–**	**–**	**227.4**
Net book value							
At 31 December 2020	84.4	6.8	69.6	21.0	–	248.2	430.0
At 31 December 2021	**106.1**	**5.7**	**74.8**	**1.7**	**0.3**	**416.3**	**604.9**

Customer-related assets

Customer-related assets reflect the value of customer contracts acquired on the acquisition of Opus Energy in February 2017 and the acquisition of Pinnacle in April 2021, which provided the Group with access to customer bases with contracted cash flows.

The Opus Energy asset valuation of £211.0 million reflected the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using an asset specific discount rate of 10.7%. The asset has an estimated useful life from acquisition of 11 years, calculated based on customer churn-rate analysis (the churn-rate shows how many customers are expected to leave the business in a given year), and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time.

5.2 Goodwill and Intangible assets continued

The Pinnacle asset valuation of £35.9 million (C$62.1 million) was estimated based on a multi-period excess earnings method. This is based on the present value of the incremental after-tax cash flows attributable to the customer related intangible asset, after deducting a contributory asset charge that represents the required return for fixed assets, net working capital and the assembled workforce that are required to produce the cash flows. The valuation estimates an appropriate margin to apply to the contracts. No customer retentions were assumed as part of the valuation. The inputs used as part of the valuation are detailed below:

	Pinnacle customer-related asset
Discount rate	10%
Weighted average tax rate	25.2%
Return on net working capital	1.5%
Return on fixed assets	7%
Return on the assembled workforce	8.5%
Useful economic life	10 years

Reasonable changes in each of the above inputs are unlikely to result in a materially different value of the Pinnacle customer-related asset apart from the assumption regarding customer retentions which would in turn impact the useful economic life. The analysis assumes that existing contracts are not renewed at the end of their current term. This assumption was based on the long duration of these contracts and the developing nature of the market for bioenergy pellets. Future renewals will depend on factors such as market conditions and the requirement and availability of appropriate support mechanisms in jurisdictions where the Group's customers operate. Had a different assumption been made in respect of contract renewals, this could have resulted in a materially higher value for the customer-related asset with an equivalent reduction in goodwill.

The Pinnacle customer-related asset is being amortised on a straight-line basis to reflect the even spread of contract maturities over the useful economic life.

Goodwill

The table below shows the carrying amount of goodwill by CGU:

	As at 31 December	
	2021 £m	2020 £m
CGU allocation:		
Drax Energy Solutions (formerly Haven Power) CGU: Haven Power acquired in 2009	**10.7**	10.7
Opus Energy CGU: Opus Energy acquired in 2017	**159.2**	159.2
Lanark CGU: Drax Generation Enterprise acquired in 2018	**11.3**	11.3
Galloway CGU: Drax Generation Enterprise acquired in 2018	**40.1**	40.1
Cruachan CGU: Drax Generation Enterprise acquired in 2018	**26.9**	26.9
Pellet group of CGUs: Pinnacle acquired in 2021	**168.1**	–
At 31 December 2021	**416.3**	248.2

A full impairment assessment of CGUs with goodwill allocated to them has been performed as detailed in note 2.4.

Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11.3 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10-year useful life from acquisition.

Computer software

Additions in the period include those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the Customers segment. Software assets are amortised on a straight-line basis over estimated useful lives ranging from three to five years.

As at 31 December 2021, computer software assets in the course of construction amounted to £39.3 million (2020: £30.7 million). This includes £19.2 million (2020: £19.2 million) for a billing system where the Group has stopped development and is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. No amounts have been provided in respect of these assets as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

Carbon assets

Carbon assets arise on the purchase of carbon emissions allowances in excess of the amount allocated under the Emissions Trading Scheme and required for the current financial year, and are measured at cost, net of any impairment. Given their short-term nature, carbon assets are not amortised.

The amount charged to the Consolidated income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, is based on the market price at the balance sheet date.

5.3 Provisions

The Group makes provision for reinstatement to cover the estimated costs of decommissioning and demolishing its generation and pellet assets and remediating the sites at the end of the useful economic lives of the assets. Other provisions are made when the Group has an obligation as a result of an event occurring in the period. During 2020, the Group has recognised a restructuring provision in respect of coal closure.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Specifically, a provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating and pellet assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected costs. The discount rate used is a risk-free rate that reflects the duration of the liability. The average discount rate used across the Group's decommissioning provisions is 1.16% (2020: 0.75%). The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within Property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

An increase of 10% to our cost estimates would increase the decommissioning provision by £6.8 million. A change in our estimates on the useful economic lives of assets included in the provision would not materially impact the value of the provision. An increase of 1% in the discount rate used to calculate the provision would decrease the provision by £11.1 million.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement the plan or announcing its main features to those affected by it. The restructuring provision includes only the direct expenditures arising from the restructuring programme. These are costs that would have been avoided if the restructuring programme did not go ahead. Any costs to be incurred relating to the ongoing activities of the Group are excluded from the provision.

A provision for termination benefits is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Other provisions include a small provision in respect of dilapidation costs for leased offices.

	Decommissioning provision £m	Restructuring provision £m	Other provisions £m	Total £m
Carrying amount:				
At 1 January 2021	**70.1**	**20.6**	**0.5**	**91.2**
Additions	–	4.3	–	**4.3**
Utilised	–	(8.2)	(0.3)	**(8.5)**
Released	(2.7)	–	–	**(2.7)**
Unwinding of discount	0.6	–	–	**0.6**
Transfer on acquisition	1.5	–	–	**1.5**
At 31 December 2021	**69.5**	**16.7**	**0.2**	**86.4**

Decommissioning provisions are made in respect of the Group's thermal generating plant (Drax Power Station) and pellet plants. The most recent update took place in December 2020 for Drax Power Station. The decommissioning provision for the pellet plants was updated in October 2021. Decommissioning provisions are not considered a key source of estimation uncertainty to which there is a significant risk of a material adjustment to the carrying amount within the next financial year. Decommissioning provisions are based on costs sufficiently far in the future that, given the length of time, it is not anticipated that any new, more reliable, or accurate information will be available within the next financial year to update this estimate and that would cause a material adjustment. Notwithstanding this, due to the high degree of estimation and uncertainty regarding the potential costs and timing of decommissioning the Group's generating and pellet plants, there remains a risk of a material adjustment to the carrying amount in the longer-term.

Decommissioning provisions are based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of each site (2039 for Drax Power Station and between 2022 and 2040 for the pellet plants). For Drax Power Station this has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. The decommissioning provision for pellet plants is estimated by management using existing technology at current prices.

The restructuring provision consists of redundancy costs relating to the closure of the coal units at Drax Power Station. It also includes costs for engineering works required to make the coal units and related assets safe when they cease being used. The additions in the year predominantly relate to increases in the expected costs of these engineering works. The amounts utilised predominantly relate to redundancy costs. Of the balance remaining at 31 December 2021, £2.1 million relates to redundancy costs which are expected to be utilised in 2022. The remaining £14.6 million relates to engineering works, of which £4.6 million is expected to be utilised in 2022 with the remaining amounts expected to be utilised in the period 2023 to 2026.

5.4 Assets held for sale and discontinued operations

Assets held for sale are non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than through continuing use. If a component of an entity is disposed of or classified as held for sale its results are classified as a discontinued operation.

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Accounting policy

Non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than continuing use are classified as held for sale if they are available for immediate sale in their present condition and if the sale is considered highly probable. A sale is deemed highly probable if all the following criteria are met:

- the appropriate level of management is committed to a plan to sell the asset (or disposal group);
- an active programme to locate a buyer and complete the plan has been initiated;
- the asset (or disposal group) are being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once an asset (or disposal group) has been classified as held for sale it is recognised at the lower of its carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment properties measured at fair value and contractual rights under insurance contracts, which are exempt from this requirement and continue to be measured in line with their relevant IFRS requirements.

Impairment losses and subsequent reversals of impairment losses are recognised in the income statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment. If an impairment loss is recognised in relation to a disposal group the impairment would be allocated first to goodwill and then on a pro-rata basis to the non-current assets within the disposal group.

A discontinued operation is a component of the Group that meets one of the following criteria:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria.

When an operation is classified as a discontinued operation its results are presented separately in the Consolidated income statement. The results of the discontinued operation are also re-presented in the Consolidated income statement as discontinued in any comparative periods.

Assets held for sale

On 15 December 2020, the Group announced it had reached an agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT portfolio, to VPI Generation Limited. Accordingly, these assets were a disposal group and were recognised as held for sale at 31 December 2020.

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek (see notes 3.5 and 7.1). The sale price represents a return over the Group's period of ownership significantly ahead of the Group's weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021, which included £24 million in respect of customary working capital adjustments. A completion accounts process concluded in July 2021, subsequent to the balance sheet date, that finalised working capital adjustments at £22 million, amending the initial consideration to £186 million.

5.4 Assets held for sale and discontinued operations continued

A reconciliation of the gain on disposal, and net assets disposed of, is set out below:

	Gain on disposal £m
Consideration received or receivable	
Cash	188.0
Fair value of contingent consideration	27.7
Carrying amounts of net assets disposed	(198.6)
Gross gain on disposal	**17.1**
Other expenses:	
Transaction costs	(4.2)
Net mark-to-market losses	(4.4)
Net gain on disposal	**8.5**

The Group recognised certain transaction-related and mark-to-market costs, as incurred, during the year ended 31 December 2020. As a result, recognition of the net gain on disposal in the Group's income statement is spread across 2020 and 2021, as illustrated below:

	Year ended 31 December		
	2021 £m	2020 £m	Total £m
Gross gain on disposal	17.1	–	17.1
Transaction costs	(0.9)	(3.3)	(4.2)
Mark-to-market costs	(1.1)	(3.3)	(4.4)
Net gain on disposal	**15.1**	**(6.6)**	**8.5**

The following assets and liabilities were reclassified as held for sale in relation to the agreed sale of DGEL at 31 December 2020:

	Notes	As at 31 December 2020 £m
Property, plant and equipment	3.1	195.4
Right-of-use assets	3.2	5.3
Trade and other receivables		58.3
Inventories		0.9
Deferred tax asset	2.6	1.4
Total assets		**261.3**
Lease liabilities	3.2	(5.6)
Provisions		(13.8)
Trade and other payables		(63.1)
Total liabilities		**(82.5)**
Net assets held for sale		**178.8**

The assets and liabilities were disposed of on 31 January 2021 and as such no assets or liabilities were held for sale at 31 December 2021.

5.4 Assets held for sale and discontinued operations continued

Discontinued operations

The income and expenses of the CCGT portfolio have been classified as discontinued operations.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	**51.8**	**(2.5)**	**49.3**	205.8	(25.3)	180.5
Cost of sales	**(31.6)**	**(7.2)**	**(38.8)**	(127.3)	47.7	(79.6)
Gross profit/(loss)	**20.2**	**(9.7)**	**10.5**	78.5	22.4	100.9
Operating expenses	**0.1**	**(1.9)**	**(1.8)**	(32.6)	(3.3)	(35.9)
Adjusted EBITDA	**20.3**			45.9		
Depreciation and amortisation	**–**	**–**	**–**	(19.2)	–	(19.2)
Other gains	**–**	**17.1**	**17.1**	–	–	–
Operating profit	**20.3**	**5.5**	**25.8**	26.7	19.1	45.8
Net finance costs	**–**	**–**	**–**	(0.7)	–	(0.7)
Profit before tax on discontinued operations	**20.3**	**5.5**	**25.8**	26.0	19.1	45.1
Total tax (charge)/credit	**(3.6)**	**1.9**	**(1.7)**	(4.8)	(3.6)	(8.4)
Profit after tax from discontinued operations and total profit from discontinued operations	**16.7**	**7.4**	**24.1**	21.2	15.5	36.7
Earnings per share	**Pence**		**Pence**	Pence		Pence
on profit for the period from discontinued operations attributable to owners of the parent						
– Basic	**4.2**		**6.1**	5.3		9.2
– Diluted	**4.1**		**5.8**	5.2		9.1

Section 6: Our people

The notes in this section relate to the remuneration of the directors and employees of the Group, including the Group's obligations under retirement benefit schemes.

6.1 Colleagues including directors and employees

This note provides a more detailed breakdown of the cost of employees, including Executive Directors of the Group. The average number of employees in Operations (staff based at production sites), Customers (employees in our Customers segment) and Central and administrative functions are also provided.

Further information in relation to pay and remuneration of the Executive Directors can be found in the Remuneration Committee report, starting on page 130.

Staff costs (including Executive Directors)

	Years ended 31 December	
	2021 £m	2020 £m
Wages and salaries	**167.9**	147.6
Social security costs	**20.0**	17.3
Defined benefit pension service cost (note 6.3)	**6.3**	8.4
Defined contribution pension cost	**15.7**	16.1
Share-based payments (note 6.2)	**7.4**	6.3
Termination benefits	**7.3**	17.0
Total staff costs	**224.6**	212.7
Staff costs capitalised	**(7.5)**	(3.8)
Staff costs included in discontinued operations	**1.5**	(12.6)
Staff costs per operating and administrative expenditure from continuing operations	**218.6**	196.3

Termination benefits of £7.3 million (2020: £17.0 million) includes a defined benefit past service credit of £2.6 million (2020: cost of £7.4 million). See note 6.3.

Average monthly number of people employed (including Executive Directors)

	Years ended 31 December	
	2021 (number)	2020 (number)
Generation operations	**754**	968
Pellet Production operations	**520**	253
Customers	**964**	1,071
Central and administrative functions	**884**	723
	3,122	3,015

6.2 Share-based payments

The Group operates three share option schemes for employees: the Long Term Incentive Plan 2020 (LTIP) for Executive Directors and senior employees (which replaced the Performance Share Plan (PSP) from 2020), the Deferred Share Plan (DSP) for Executive Directors, and the Sharesave Plan (SAYE) for all UK qualifying employees. Awards are made to certain employees below senior management under the rules of the LTIP – such awards are retention and recognition awards, designated as One Drax Awards, for more junior colleagues. The Group incurs a non-cash charge in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Accounting policy

The LTIP, PSP, DSP, One Drax Award and SAYE share-based payments are equity settled. Equity-settled share-based payments, in accordance with IFRS 2, are measured at the fair value of the equity instrument at the date of grant and are recognised in the income statement on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each balance sheet date.

6.2 Share-based payments continued

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Equity settled		
LTIP 2020 (granted from 2020)	**3.6**	0.4
PSP (granted from 2017)	**0.9**	0.8
DSP (granted from 2017)	**0.6**	0.7
One Drax awards	**0.7**	–
SAYE	**1.6**	3.3
Cash settled		
One Drax awards	**–**	1.1
Total share-based payment expense (note 6.1)	**7.4**	6.3

Of the total share-based payment expense in the table above, £nil relates to discontinued operations (2020: £0.7 million).

Share Incentive Plan (SIP)

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching shares were awarded to employees to match any shares they bought, in a ratio of one-to-one, with the cost of matching shares borne by the Group. There have been no awards under the SIP Partnership and Matching Share plan since 2010. In December 2021, the SIP was wound up and, as at 31 December 2021, there were no outstanding SIP shares.

Shares in the Company held under trust and under the Company's control as a result of the SIP are as follows:

	Shares held at 1 January 2021 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2021 (number)	Cost at 31 December 2021 £	Nominal value at 31 December 2021 £	Market value at 31 December 2021 £
SIP	59,373	–	59,373	–	–	–	–

Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2020 for Executive Directors and senior employees. This replaced the Performance Share Plan which operated from 2017 to 2019 (see below). Under the LTIP, annual awards of performance and service-related shares are made for no consideration to Executive Directors and other senior employees up to a maximum of 200% of their annual base salary. Vesting of a proportion of shares (50%) is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) is conditional upon performance of Cumulative Adjusted EPS over three years.

The fair value of the LTIP awards of £2.0 million made in 2021 (2020: £3.1 million) is being charged to the income statement on a straight-line basis over the three-year vesting period. The fair value of LTIP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2021 awards are the share price at the grant date of 418 pence (2020: 203 pence), expected volatility of 40% (2020: 37%), and risk-free interest rate of 0.12% (2020: 0.05%).

Movements in the number of shares outstanding for the LTIP is shown below:

	2021 (number)	2020 (number)
At 1 January	**3,055,168**	–
Granted	**1,990,385**	3,093,600
Forfeited	**(445,760)**	(38,432)
Expired	**(29,565)**	–
At 31 December	**4,570,228**	3,055,168

The weighted average fair value of the options granted during the year was 388 pence (2020: 156 pence).

Shares were forfeited due to the employee failing to meet the continuing service conditions of the grant and as such do not attract a charge.

Shares expire due to employees not meeting market-based conditions, withdrawing (by choice) part way through the vesting period or for whatever reason, do not exercise their options in the exercise period after they vest. Under IFRS 2 such options still attract a charge.

All of the LTIP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). The weighted average remaining contractual life was 21 months (2020: 29 months).

6.2 Share-based payments continued

Performance Share Plan (PSP)

The PSP was introduced for Executive Directors and senior employees to replace the Bonus matching plan (BMP) from 2017. Under the PSP, annual awards of performance and service-related shares were made for no consideration up to a maximum of 175% of their annual base salary. Vesting of a proportion of shares (50%) was conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) is conditional upon performance against the internal balanced corporate scorecard. No PSP awards were granted in 2021 (2020: none).

Movements in the number of shares outstanding for the PSP awards are as follows:

	2021 (number)	2020 (number)
At 1 January	**1,807,607**	3,001,565
Forfeited	**(325,362)**	(553,820)
Exercised	**(627,101)**	(159,429)
Expired	**(138,722)**	(480,709)
At 31 December	**716,422**	1,807,607

All of the PSP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). The weighted average remaining contractual life was 4 months (2020: 8 months).

The weighted average share price of options exercised during the period at the date of exercise was 199 pence (2020: 202 pence).

Deferred Share Plan (DSP)

In addition, the Group operates the DSP, under which Executive Directors defer into shares a minimum of 40% (2020: 40%) of their annual bonus. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. The share price on the grant date of DSP awards made in 2021 was 418 pence (2020: 149 pence) and the fair value of these awards of £0.4 million (2020: £0.3 million) is being charged to the income statement on a straight-line basis over the three-year vesting period.

The fair value of DSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2021 awards are the share price at the date of grant, expected volatility of 40% (2020: 37%), and risk-free interest rate of 0.12% (2020: 0.05%).

Movements in the number of share options outstanding for the DSP awards are as follows:

	2021 (number)	2020 (number)
At 1 January	**690,438**	648,248
Granted	**99,367**	179,921
Forfeited	**(40,568)**	(47,115)
Exercised	**(135,972)**	(90,616)
Expired	**(45,839)**	–
At 31 December	**567,426**	690,438

The weighted average fair value of the options granted during the year was 418 pence (2020: 149 pence).

All of the DSP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). 100% of the DSP options granted in 2021 will vest in three years; the weighted average remaining contractual life of the DSP options outstanding at the end of the period was 11 months (2020: 16 months).

The weighted average share price of options exercised during the period at the date of exercise was 380 pence (2020: 154 pence).

The number of options exercisable at the year end was nil (2020: nil).

Sharesave Plan (SAYE)

In April 2021, participation in the SAYE plan was offered again to all UK qualifying employees. Options were granted for employees to acquire shares at a price of 331 pence (2020: 127 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts. The fair value of the options granted in connection with the SAYE plan of £1.0 million (2020: £4.9 million) is being charged to the income statement over the term of the relevant contracts.

6.2 Share-based payments continued

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2021				2020			
	Three-year Weighted average exercise price (pence)	SAYE three-year (number)	Five-year Weighted average exercise price (pence)	SAYE five-year (number)	Three-year Weighted average exercise price (pence)	SAYE three-year (number)	Five-year Weighted average exercise price (pence)	SAYE five-year (number)
At 1 January	**137**	**9,523,816**	**139**	**3,649,625**	271	3,055,918	244	1,656,746
Granted	**331**	**790,701**	**331**	**109,566**	127	8,951,973	127	3,225,364
Forfeited	**141**	**(813,391)**	**132**	**(607,663)**	204	(81,835)	319	(6,195)
Exercised	**174**	**(828,697)**	**180**	**(516,317)**	267	(81,817)	206	(13,089)
Expired	**170**	**(295,606)**	**164**	**(95,501)**	270	(2,320,423)	249	(1,213,201)
At 31 December	**149**	**8,376,823**	**140**	**2,539,710**	137	9,523,816	139	3,649,625

Shares granted during 2021 were significantly lower to 2020. This was due to the high level of employee subscriptions to the 2020 scheme and there being a limit on the amount employees are able to save across all SAYE schemes.

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant. The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	13 April 2021 three-year	13 April 2021 five-year	14 April 2020 three-year	14 April 2020 five-year
Share price at grant date (pence)	**413**	**413**	185	185
Vesting period	**3 years**	**5 years**	3 years	5 years
Exercise price (pence)	**331**	**331**	127	127
Dividend yield	**4.3%**	**4.7%**	8.6%	8.6%
Annual risk-free interest rate	**0.43%**	**0.68%**	0.04%	0.10%
Expected volatility	**38.4%**	**35.8%**	35.0%	39.6%
Fair value of options granted (pence)	**111**	**105**	41	39

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 438 pence (2020: 296 pence).

The range of exercise prices of SAYE options outstanding at the end of the period was between 127 pence and 331 pence (2020: 127 pence and 298 pence). The weighted average remaining contractual life was 23 months (2020: 33 months).

The number of options exercisable at the year end was 8,551 (2020: 3,857).

One Drax Awards

One Drax Awards are granted under the rules of the LTIP to certain employees below senior management. These shares vest one year after the date of grant. The number of shares awarded to the employee is equivalent to 10% of their base pay based on the Drax Group share price as at the grant date.

The share price on the grant date of One Drax Awards made in 2021 was 418 pence and the fair value of these awards of £0.3 million is being charged to the income statement on a straight-line basis over the one-year vesting period.

Movements in the number of share options outstanding for the One Drax Awards are as follows:

	2021 (number)
At 1 January	**–**
Granted	**226,852**
Forfeited	**(10,083)**
Exercised	**–**
Expired	**(703)**
At 31 December	**216,066**

The weighted average fair value of the options granted during the year was 418 pence.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on page 139.

6.3 Retirement benefit obligations

The Group operates two defined benefit and five defined contribution pension schemes.

Name of scheme	Type of Benefit	Status	Country
Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS)	Defined benefit final salary	Closed to new members in 2002	UK
Drax 2019 Scheme	Defined benefit final salary	Closed to new members on transfer in 2019	UK
Drax Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Energy Solutions (formerly Haven Power) Personal Pension Plan	Defined contribution	Open to new members	UK
Opus Energy Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Biomass Inc. 401(K) Plan	Defined contribution	Open to new members	US
Pinnacle Registered Retirement Savings Plan	Defined contribution	Open to new members	CAN

Trustee governance (defined benefit pension schemes)

The UK defined benefit plans are administered by a separate board of trustees, which is legally separate from the Group. The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy for the assets and the day-to-day administration of the benefits.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

Significant estimation uncertainty

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of pension scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2021 have been prepared on a consistent basis with those in the previous period. The assumptions have been prepared in accordance with independent actuarial advice received.

Defined contribution schemes

The Group operates five defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Total included in staff costs	**15.7**	16.1

As at 31 December 2021, contributions of £1.1 million (2020: £0.3 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further outstanding payment obligations once the contributions have been paid.

Defined benefit schemes

Any pension surplus and liability are shown gross on the Balance Sheet as there is no legal right of offset between the two defined benefit pension schemes. The net pension surplus/(liability) for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2021 £m	2020 £m
Drax Power Group section of ESPS	**44.0**	9.5
Drax 2019 Scheme	**4.9**	(1.3)
Total net surplus recognised in the balance sheet	**48.9**	8.2

6.3 Retirement benefit obligations continued

The DPG section of the ESPS and the Drax 2019 scheme are collectively referred to as the Defined Benefit Schemes or the Schemes below. At 31 December 2021, application of the accounting assumptions used in relation to the Defined Benefit Schemes, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

Both plans are Defined benefit final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Pension benefits are updated in line with inflationary increases.

The DPG section of the ESPS was closed to new members as of 1 January 2002 unless they had qualified through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three-times the members pension at retirement.

The Drax 2019 scheme was set up following a transaction on 31 December 2018, when Drax acquired assets from ScottishPower. Under the terms of the Sale and Purchase Agreement, employees with Defined benefit pension rights who moved to Drax as part of the transaction were able to build up future Defined benefit pension and were also able to transfer their defined benefits they had already built up to Drax. The 2019 Scheme was set up to facilitate this from 1 January 2020. From this date, 96 members joined the 2019 scheme and continued to build up future Defined benefit pension. Of these, 81 members agreed to transfer their past service into the Drax 2019 Defined Benefit Scheme.

Under the Drax 2019 Scheme, employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). No other post-retirement benefits are provided. The Scheme is open to future accrual of benefits but closed to new members.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The Schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The ESPS Scheme holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given this Scheme's long-term objectives. The 2019 Scheme has an interim investment allocation in place whilst the long-term strategy is agreed. The Scheme's interim strategic asset allocation is 40% in gilts and cash to support liability hedging and swaptions positions, 35% allocated to synthetic credit (which is not yet in place), 15% to short duration gilts and 10% to credit opportunities.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the Schemes' liabilities, although this will be partially offset by an increase in the value of the Schemes' bond holdings.
Longevity risk	The majority of the Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the Scheme.
Inflation risk	The majority of the Schemes' obligations to pay benefits are linked to inflation and, as such, higher inflation will lead to higher liabilities. In most cases, caps on inflationary increases are in place to protect against extreme inflation. The Schemes have a significant holding in liability-driven investments and around 85% of inflation risk in the Schemes is hedged on a low-risk measure (2020: 85%).
Credit risk	Around 85% of the Schemes' funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. Note that the Schemes hedge interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Schemes' holding in corporate bonds mitigates this risk to some extent.
Risk management	The Group and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme so as to protect against interest rates being lower or inflation being higher than expected.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees ensure certain benefits are payable on death before retirement.

A qualified independent actuary, Aon, carried out the most recent funding valuation of the DPG ESPS as at 31 March 2019, and the most recent funding valuation of the 2019 Scheme as at 31 March 2021. The actuarial review at 31 December 2021 is based on the same membership and other data as these funding valuations. The Scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the Scheme cost.

6.3 Retirement benefit obligations continued

The results of the latest funding valuation have been adjusted to the balance sheet date, taking into account experience over the period since that date, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation and the related current service costs were measured using the projected unit credit method.

The principal assumptions for the Schemes are set out below. Where absolute assumptions differ between the two schemes, reflecting differences in the expected duration of the Scheme liabilities, a weighted average is shown.

	As at 31 December	
	2021 % p.a.	2020 % p.a.
Discount rate	**1.9**	1.5
Inflation (RPI)	**3.0**	2.6
Rate of increase in pensions in payment and deferred pensions	**2.9**	2.6
Rate of increase in pensionable salaries	**3.6**	3.2

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2021 will live, on average, for a further 26 years if they are male (2020: 26 years) and for a further 28 years if they are female (2020: 28 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 29 years respectively (2020: 27 and 29 years respectively). At this time we do not consider Covid-19 to have had a significant impact on mortality rates but plan to assess this as part of future experience analysis.

The weighted average duration of the DPG ESPS at 31 December 2021 based on the IAS 19 position was around 20 years (2020: around 20 years). The weighted average duration of the 2019 Scheme at 31 December 2021 based on the IAS 19 position was 24 years (2020: 25 years).

The DPG ESPS defined benefit obligation includes benefits for current employees of the Group (50%), former employees of the Group who are yet to retire (5%) and retired pensioners (45%). The 2019 Scheme defined benefit obligation includes benefits for current employees of the Group (55%), former employees of the Group who are yet to retire (43%) and retired pensioners (2%).

The net surplus recognised in the balance sheet in respect of the Schemes is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2021 £m	2020 £m
Defined benefit obligation	**(320.9)**	(378.1)
Fair value of plan assets	**369.8**	386.3
Net surplus recognised in the balance sheet	**48.9**	8.2

The total charges recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Included in staff costs (note 6.1):		
Current service cost	**6.3**	8.4
Past service (credit)/cost	**(2.6)**	7.4
Included in finance costs (note 2.5):		
Interest on net defined benefit surplus	**(0.3)**	(0.3)
Total amounts recognised in the income statement	**3.4**	15.5

The 2021 past service credit relates to the Group disposal of the CCGT portfolio on 31 January 2021 as described in note 5.4. This led to 42 members, of a pre-transaction total of 96, ceasing to accrue benefits in the Drax 2019 Scheme. However, the pension scheme did not form part of the transaction and therefore the assets and liabilities in relation to the Drax 2019 Scheme will remain on the Group's balance sheet.

The calculation was performed by a qualified actuary using the same assumptions as those applied to the rest of the Scheme and the past service credit represents the difference between the liability relating to the standard Group benefits as per the current reserve in the calculation of the Group's IAS 19 position and the corresponding liability in respect of the equivalent redundancy benefits offered to those employees to be made redundant.

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Defined benefit obligation at 1 January	**378.1**	345.4
Current service cost	**6.3**	8.4
Past service (credit)/cost	**(2.6)**	7.4
Employee contributions	**–**	0.2
Interest cost	**5.3**	6.9
Actuarial (gains)/losses	**(15.4)**	30.5
Benefits paid	**(50.8)**	(20.7)
Defined benefit obligation at 31 December	**320.9**	378.1

The actuarial gains of £15.4 million (2020: losses of £30.5 million) reflect gains of £10.3 million arising from changes in financial assumptions (2020: losses of £30.0 million), gains arising from scheme experience of £4.3 million (2020: gains of £0.3 million) and gains of £0.8 million arising from changes in demographic assumptions (2020: losses of £0.8 million).

The gains due to changes in financial assumptions principally reflect the decrease in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 1.9% p.a. (2020: 1.5% p.a.) following an increase in corporate bond yields. This was partly offset by increases in the present value of the scheme liabilities from higher assumed inflation assumptions reflecting market pricing.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Fair value of plan assets at 1 January	**386.3**	352.4
Interest on plan assets	**5.7**	7.2
Remeasurement gains	**15.3**	32.3
Employer contributions	**13.3**	14.9
Employee contributions	**–**	0.2
Benefits paid	**(50.8)**	(20.7)
Fair value of plan assets at 31 December	**369.8**	386.3

Employer contributions included payments totalling £7.2 million (2020: £5.3 million) to reduce the actuarial deficit. There were contributions of £1.0 million outstanding at the end of the year (2020: £0.9 million).

The actual return on plan assets in the period was £21.0 million (2020: £39.5 million).

Remeasurement gains on the Defined benefit pension scheme of £30.7 million (2020: £1.4 million) were recognised in the Consolidated statement of comprehensive income. This is made up as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Actuarial gains/(losses) on Defined benefit obligation	**15.4**	(30.5)
Remeasurement gains on fair value of plan assets	**15.3**	32.3
Cost of managing plan assets	**–**	(0.4)
Remeasurement gains recognised in other comprehensive income	**30.7**	1.4

6.3 Retirement benefit obligations continued

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2021 £m	2020 £m
Gilts	**150.0**	160.7
Equities[1]	**26.5**	26.8
Fixed interest bonds[2]	**30.3**	35.6
Property	**32.1**	38.3
Investment funds	**25.0**	27.2
Cash and other assets[3]	**105.9**	97.7
Fair value of total plan assets	**369.8**	386.3

Notes:
(1) At 31 December 2021 the ESPS scheme's long-term asset strategy was: diversified growth funds (37%), direct lending (10%), absolute return bonds (3%), liability driven investing (40%) and long lease property (10%). The 2019 scheme's long term investment strategy is to move gradually towards a fully hedged position but to maintain assets which generate returns such as equity options, swaptions and credit strategy.
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.
(3) Other assets include £27.1 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2020: £24.2 million). The fair value of these investments is derived in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. All other assets are quoted in an active market.

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The assumptions for discount rate, inflation rate (and related inflation linked benefits) and life expectancy have a potentially significant effect on the measurement of the scheme surplus. The following table provides an indication of the sensitivity of the pension surplus at 31 December 2021 to changes in these assumptions, considering the impact on the defined benefit obligation only:

			Increase/(decrease) in net surplus	
			2021 £m	2020 £m
Discount rate	– Increase	0.25%	**17.3**	37.6
	– Decrease	0.25%	**(19.5)**	(41.6)
Inflation rate[1]	– Increase	0.25%	**(15.1)**	(33.2)
	– Decrease	0.25%	**13.8**	30.2
Life expectancy	– Increase	1 year	**(13.2)**	(14.6)
	– Decrease	1 year	**12.7**	14.6

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation.

The Group is exposed to investment and other risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income. However, this risk is mitigated by the Schemes being around 85% hedged. This means from a discount rate perspective that the Schemes are broadly only exposed to changes in credit spreads plus around 15% of changes in underlying gilt yields and, for inflation, the Schemes' exposure is around 15% of any actual changes.

6.3 Retirement benefit obligations continued

Future contributions

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). This funding is carried out through actuarial valuations which are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Group must agree the contributions required (if any) such that the Schemes are fully funded over time on the basis of suitably prudent assumptions.

The Group expects to make total contributions of £12.2 million to the Schemes during the 12 months ended 31 December 2022.

The latest actuarial valuation of the 2019 Scheme which was completed this year resulted in a funding surplus of £1.3m and so no deficit recovery plan was required. The last actuarial valuation of the DPG section of the ESPS was carried out by the Trustee's actuarial advisers, Aon, as at 31 March 2019. Following this actuarial valuation, the Group agreed to repair the funding deficit of £35.9 million as at 31 March 2019 over the period to 30 June 2024, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2019 being borne out in practice. The agreement includes payments of £7.2 million per annum (indexed with RPI) to be paid until 30 June 2024.

The Group has also agreed to make additional contributions to the DPG section of the ESPS over the period to 31 December 2025 to eliminate the self-sufficiency deficit. At this point the DPG section of the ESPS is expected to be self-sufficient and fully funded, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is confident that the additional contributions are manageable within the Group's business plan.

The Trust Deeds of the DPG section of the ESPS and the 2019 Scheme provide the sponsors of these schemes with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the DPG section of the ESPS. Based on these rights, any net surplus in the plan is recognised in full.

Section 7: Risk management

This section provides disclosures around financial risk management, including the financial instruments the Group uses to mitigate such risks.

7.1 Financial instruments and their fair values

The Group hold a variety of derivatives and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Accounting classifications and fair values

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for leases or for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Cash and cash equivalents (note 4.1), trade and other receivables (note 3.5) and trade and other payables (note 3.7) generally have a short time to maturity. For this reason, their carrying values, on the historical cost basis, is approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans (note 4.2). These financial liabilities have been measured at amortised cost.

	Carrying amount						Fair value			
31 December 2021 £m	Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	877.5	121.3	–	–	–	998.8	–	998.8	–	998.8
Financial contracts	–	143.9	–	–	–	143.9	–	143.9	–	143.9
Foreign currency exchange contracts	56.9	40.6	–	–	–	97.5	–	97.5	–	97.5
Interest rate and cross-currency contracts	4.6	–	–	–	–	4.6	–	4.6	–	4.6
Inflation rate contracts	1.3	–	–	–	–	1.3	–	1.3[1]	–	1.3
Contingent consideration	–	27.7	–	–	–	27.7	–	–	27.7	27.7
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	516.8	–	516.8				
Cash and cash equivalents	–	–	–	317.4	–	317.4				
Financial liabilities measured at fair value										
Commodity contracts	(1,054.8)	(33.1)	–	–	–	(1,087.9)	–	(1,087.9)	–	(1,087.9)
Financial contracts	–	(90.2)	–	–	–	(90.2)	–	(90.2)	–	(90.2)
Foreign currency exchange contracts	(29.3)	(108.4)	–	–	–	(137.7)	–	(137.7)	–	(137.7)
Interest rate and cross-currency contracts	(48.4)	–	–	–	–	(48.4)	–	(48.4)	–	(48.4)
Inflation rate contracts	(93.7)	(46.6)	–	–	–	(140.3)	–	(140.3)[1]	–	(140.3)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(786.8)	(786.8)	–	(805.9)	–	(805.9)
Secured bond issues	–	–	–	–	(574.2)	(574.2)	(598.3)	–	–	(598.3)
Lease liabilities	–	–	–	–	(125.9)	(125.9)				
Trade and other payables	–	–	–	–	(869.5)	(869.5)				

Note:

(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13. Inflation rate contracts contains £1.3 million of derivative assets and £11.5 million of derivative liabilities relating to UK CPI inflation rate contracts.

7.1 Financial instruments and their fair values continued

31 December 2020 £m	Carrying amount: Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value: Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	102.1	60.5	–	–	–	162.6	–	162.6	–	162.6
Financial contracts	–	20.0	–	–	–	20.0	–	20.0	–	20.0
Foreign currency exchange contracts	40.3	41.9	–	–	–	82.2	–	82.2	–	82.2
Interest rate and cross-currency contracts	0.1	–	–	–	–	0.1	–	0.1	–	0.1
Inflation rate contracts	6.2[1]	12.2	–	–	–	18.4	–	18.4	–	18.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	432.8	–	432.8				
Cash and cash equivalents	–	–	–	289.8	–	289.8				
Financial liabilities measured at fair value										
Commodity contracts	(106.4)	(49.6)	–	–	–	(156.0)	–	(156.0)	–	(156.0)
Financial contracts	–	(36.8)	–	–	–	(36.8)	–	(36.8)	–	(36.8)
Foreign currency exchange contracts	(57.0)	(136.8)	–	–	–	(193.8)	–	(193.8)	–	(193.8)
Interest rate and cross-currency contracts	(67.0)	–	–	–	–	(67.0)	–	(67.0)	–	(67.0)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(483.2)	(483.2)	–	(500.2)	–	(500.2)
Secured bond issues	–	–	–	–	(582.5)	(582.5)	(614.5)	–	–	(614.5)
Lease liabilities	–	–	–	–	(30.2)	(30.2)				
Trade and other payables	–	–	–	–	(619.4)	(619.4)				

Note:
(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13.

The derivative financial instruments used by the Group and not subject to the own-use exemption have been categorised as follows:

- **Commodity contracts** – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through physical delivery of the commodity.
- **Financial contracts** – freight and weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- **Foreign currency exchange contracts** – currency related contracts including forwards, vanilla options and structured option products.
- **Interest rate and cross-currency contracts** – contracts which swap one interest rate for another in a single currency, including floating-to-fixed interest rate swaps, and contracts which swap interest and principal cash flows in one currency for another currency, including fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.
- **Inflation rate contracts** – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI, and inflation swaptions.

7.1 Financial instruments and their fair values continued

Fair value measurement

- **Commodity contracts fair value** – The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date.
- **Financial contracts fair value** – The fair value of financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date.
- **Foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Interest rate and cross-currency contracts** – The fair value of interest rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant interest index. The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest index for floating-to-fixed swaps.
- **Inflation rate contracts** – The fair value of inflation rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. The 2025 USD loan notes, the 2025 EUR loan notes, and the infrastructure term loan facilities, all contain early repayment options that meet the definition of embedded derivatives. However, in all cases, these do not require separate valuation as they are deemed to be closely related to the host contract.

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate and cross-currency contracts, and US inflation swaps are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

Given all inputs, other than an immaterial CPI component of the UK CPI inflation swaps (see details below) are Level 2 in the fair value hierarchy, derivatives have not been considered to be a key source of estimation uncertainty as there is not believed to be any more reliable methodologies or inputs that would result in a material adjustment to the carrying value.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

The Group finance team is responsible for determining the policies and approach to valuations required for financial reporting purposes, including Level 3 fair values. Internal or external specialists will be utilised where necessary. Valuation policies, approaches and the results are discussed with and approved by the CFO and the Audit Committee as required, based on the size, complexity and judgement required with each valuation.

7.1 Financial instruments and their fair values continued

Level 3 fair values

The fair value of the UK CPI inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, CPI is based on unobservable rates and therefore deemed to be Level 3 in the fair value hierarchy. However, this component is not material to the overall valuation and therefore the instruments as a whole are determined to be Level 2 in line with IFRS 13.

The valuation technique used for non-listed equity investments comprises unobservable inputs and are therefore classified as Level 3. However, given the valuations as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures.

The consideration receivable by the Group for the sale of the CCGT portfolio in 2021 includes £29.0 million that is contingent on certain triggers in respect of the option to develop the Damhead Creek land disposed of as part of the sale of these assets. The fair value measurements for the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

	Valuation approach	Significant unobservable inputs and range of inputs (probability weighted)	Relationship between significant unobservable input and fair value measurement
Contingent consideration	The fair value of the contingent consideration is determined using a discounted cash flow model. The valuation approach is based on a calculation of the probability of the option to develop the Damhead Creek land being exercised. This probability is calculated using a range of forecasts for future Capacity Market auctions and the assumption that the option to develop the land would be exercised if the Capacity Market price were to clear above a certain level, providing sufficient certainty of the economics of the development.	Forecasted future Capacity Market clearing prices: £4.80/kW – £75.00/kW (£21.50/kW) Required internal rate of return for the Damhead Creek development to proceed: 15.0% (15.0%)	The fair value measurement would increase (decrease) with: – higher/(lower) forecasted Capacity Market clearing prices causing a higher (lower) probability of the option over the Damhead Creek land being exercised – a reduction/(increase) in the internal rate of return required for the Damhead Creek development to proceed causing a higher/(lower) probability of the option over the Damhead Creek land being exercised

A reconciliation of the contingent consideration is detailed below:

	2021 Contingent consideration £m
Balance at 1 January	–
Contingent consideration receivable recognised on the sale of the CCGT portfolio	27.7
Net change in fair value (unrealised)	–
Balance at 31 December	**27.7**

Sensitivities are disclosed below for reasonably possible changes to the unobservable inputs that would have a significant impact on the fair value measurement:

	Impact on profit after tax	
	Decrease £m	Increase £m
31 December 2021		
Forecasted future Capacity Market clearing prices (75%)	**(15.4)**	**1.8**
Required internal rate of return for the Damhead Creek development to proceed (4%)	**2.2**	**(6.8)**

Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve and cost of hedging reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS 9 (see note 7.2).

Where applicable the Group has applied the own-use exemption which allows qualifying contracts to be excluded from fair value marked-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements.

7.1 Financial instruments and their fair values continued

Contracts for non-financial assets which do not qualify for the own-use exemption – principally power, gas, financial oil, financial coal and carbon emissions allowances – are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value. Changes in fair value are reflected through the hedge reserve (note 7.3) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the Consolidated income statement where the hedge accounting requirements are not met. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from the Adjusted results in the Consolidated income statement until the contract matures (see note 2.7 for further details).

The Group's biomass risk management policy permits some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such the own-use exemption would likely not apply to these biomass contracts. However, the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

	As at 31 December	
	2021 £m	2020 £m
Non-current derivative financial instrument assets	**357.5**	103.8
Current derivative financial instrument assets	**888.6**	179.5
Total derivative financial instrument assets	**1,246.1**	283.3
Non-current derivative financial instrument liabilities	**(541.8)**	(142.1)
Current derivative financial instrument liabilities	**(962.7)**	(311.5)
Total derivative financial instrument liabilities	**(1,504.5)**	(453.6)
Total net derivative financial instruments	**(258.4)**	(170.3)

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at fair value through profit or loss are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at fair value through profit or loss. In addition to the amounts disclosed below, gains and losses relating to derivatives qualifying for hedge accounting are disclosed in notes 7.2 to 7.4.

	Gains/(losses) recognised	
	2021 £m	2020 £m
(Losses)/gains on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	**(77.0)**	8.7
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	**36.6**	(46.6)
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in interest payable and similar charges	**(0.3)**	–
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange gains/(losses)	**(5.1)**	(0.6)
Total losses on derivative financial instruments not qualifying for hedge accounting	**(45.8)**	(38.5)

When the Group rebases derivative contracts, the Group retains the contractual rights to the cash flows, the risks and rewards, and control of the derivative asset. The Group does not assume any obligation to pay the cash flows to another recipient. Accordingly, the derivative asset is not derecognised.

The cash flows received at the point of rebasing reduce the cash flows to be received on maturity, and as such the cash flows over the life of the instrument are the same whether a trade is rebased or not, minus fees.

At the point of rebasing, the Group recognises a reduction in the fair value of the derivative asset, equivalent to the fair value difference between the original rate per the contract and the rebased rate. The Group also recognises the cash received, or due, as a result of the rebasing. Any difference between the reduction in the fair value of the derivative asset, and the cash received, is recognised as a fee charged for rebasing and is recognised within operating and administrative expenses.

The total gain or loss recognised in the period on the derivative contract, including rebased amounts, is included within Total results. No amounts are recognised in Adjusted results at the point of rebasing. The total gain or loss on the derivative contract, including the amount rebased, is recognised in Adjusted results on the contractual maturity date of the contract. If a rebased trade is hedge accounted, the rebased amount is deferred or released from the hedge reserve in line with the hedge accounting requirements of IFRS 9.

7.2 Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by the risk management committees as explained in the principal risks and uncertainties section (page 76) which identify, evaluate and hedge financial risks in close co-ordination with the Group's trading and treasury functions under policies approved by the Board of directors.

7.2.1 Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of power, gas, sustainable wood fibre and pellets, other fuels and the price of carbon emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases/decreases in commodity prices. The analysis assumes all other variables were held constant.

In the current year there has been increased volatility, predominantly due to low gas stocks and lower levels of intermittent renewables generation causing significant increases in gas and power prices. Sensitivities for a 10% change in prices have been included in the current year. The impact of smaller and larger price changes can be interpolated and extrapolated from the below table as changes in prices have a relatively linear relationship with the impact on profit after tax and on other components of equity.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
31 December 2021				
Power	–	–	27.8	(27.8)
Carbon	–	–	(0.2)	0.2
Gas	(7.4)	7.4	–	–
Oil	(9.8)	9.8	–	–

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
31 December 2020				
Power	6.8	(6.8)	5.7	(5.7)
Carbon	(2.7)	2.7	–	–
Gas	(11.0)	11.0	–	–
Oil	(7.6)	7.6	–	–

Profit after tax is sensitive to increases/decreases in commodity prices as a result of the impact on the fair value of derivative financial instruments not designated as hedging instruments under cash flow hedge accounting. The Group designates certain derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to increases/decreases in commodity price risk in relation to the impact on the hedge reserve of these movements.

Profit after tax was sensitive to power and carbon price changes in the prior year due to the discontinuance of hedge accounting relating to certain power trades entered for the CCGT assets disposed of and carbon EU allowance (EUA) trades (see the hedge accounting section below for further details). During the year positions relating to the CCGT power trades were closed out and therefore profit after tax is no longer sensitive to power price movements. All trades for carbon EUAs matured in December and therefore profit after tax is no longer sensitive to carbon price movements.

7.2 Financial risk management continued

Commodity risk management

The Group has a policy of securing forward power sales, purchases of fuel and carbon emissions allowances when profitable to do so and in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years out. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power.

The Group purchases sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. If these contracts are within the scope of IFRS 9, the Group, where possible, either applies the own-use exemption or hedge accounting in accordance with IFRS 9. If the own-use exemption or hedge accounting are not applicable then the contracts are recognised at fair value through profit or loss.

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of the Customers' business and for its Daldowie fuel plant.

The Group purchases carbon emissions allowances under fixed price contracts with different maturity dates. All commitments to purchase carbon emissions allowances under fixed price contracts were previously designated as cash flow hedges as they reduced the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. However, in 2020, as a result of the UK leaving the EU and the EU emissions trading scheme (ETS) no longer applying to the Group, hedge accounting of carbon EUAs was discontinued in the year. The Group continued to hold carbon EUAs as a proxy hedge for carbon UK allowances (UKAs) prior to the establishment of the scheme and ability to trade UKAs. Once the UK scheme was set up and the Group was able to contract for UKAs the Group sold out of the EUA proxy hedges and replaced these with UKAs. The Group therefore no longer has any contracts for EUAs and has applied hedge accounting to UKAs. See the hedge accounting section below for further details.

Hedge accounting

The Group has cash flow hedges relating to commodity contracts (principally commitments to sell power and purchase carbon). Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is at the point when the underlying power is delivered.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the Consolidated income statement in the period the hedged transaction occurs. No ineffectiveness was recognised in the Consolidated income statement on continuing commodity or financial hedges in the year (2020: £nil). Due to the use of 'all-in-one' hedges, this results in the movement in fair value for the hedged items and hedging instruments being identical.

The only source of ineffectiveness regarding the "all-in-one" hedges would be if delivery of the commodities was no longer expected to occur, which would result in hedge accounting being discontinued. The main sources of ineffectiveness regarding financial contracts would be as a result of timing differences and credit risk.

In the prior year, the Group announced its decision to cease commercial coal generation in March 2021, ahead of the 2025 deadline. This resulted in the cash flows for the purchase of coal, that a number of financial coal contracts were hedging, no longer being expected to occur. The hedges therefore no longer met the hedge accounting requirements, and accordingly, all gains or losses relating to these hedges were reclassified to the income statement. This resulted in a loss of £5.6 million being reclassified to the Consolidated income statement in the prior year. No financial coal contracts were designated as hedges in the current year.

The Group had a number of forward purchase contracts for carbon EUAs to hedge its exposure to carbon prices under the EU ETS. During the prior year it became clear that the UK was intending to set up a separate ETS once the UK had left the EU. As a result, the purchases of EUAs in the period post the UK leaving the EU (from 1 January 2021 onwards), that were hedge accounted, were no longer expected to occur. At this point hedge accounting was discontinued and any gains or losses accumulated in the hedge reserve were reclassified to the Consolidated income statement. This resulted in a gain of £1.7 million being reclassified to the Consolidated income statement in the prior year, of which £0.7 million related to discontinued operations. From this point onwards, hedge accounting has no longer been applied to any EUAs.

During 2021, the UK ETS scheme was set up and the trading of UKAs began. The contracts the Group enters to purchase UKAs are hedges of forecast future cash flows to purchase the UKAs required to cover the Group's carbon emissions under the UK ETS. As such, the Group applies cash flow hedge accounting to UKAs.

7.2 Financial risk management continued

In the prior year the Group had a number of forward sale contracts for power relating to forecast generation from the CCGT assets that were designated as cash flow hedges. As a result of the sale of the CCGT assets on 31 January 2021, the cash flow hedges in relation to forecast generation of the CCGT assets in the period post 31 January 2021 no longer met the hedge accounting requirements due to the forecast transactions no longer being expected to occur from the Group's perspective. As such, in the prior year, hedge accounting for these transactions was discontinued. This resulted in a £25.3 million loss on forward power contracts being reclassified to the Consolidated income statement within discontinued operations. All other power contracts continued to meet the requirements of hedge accounting and therefore continued to be accounted for as cash flow hedges.

A net £2.6 million loss was recognised in the prior year on derivative contracts relating to the period after disposal of the CCGT assets on 31 January 2021. This included the above £25.3 million loss on power trades, a gain of £17.5 million relating to gas trades, and a gain of £5.2 million relating to carbon trades.

By January 2021 the Group had closed out all derivative positions in relation to the CCGT assets. As such, from this point, no further gains or losses would occur in relation to these trades. Most trades originally relating to the CCGTs have matured. The remaining CCGT trades will mature in the first half of 2022. Current and prior year amounts relating to these trades are included within discontinued operations.

All subsequent fair value movements on hedges that have been discontinued are recognised in the Consolidated income statement.

The reconciliation of the reserves and time period when the hedge will affect the profit or loss are disclosed in note 7.3.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's commodity and financial contracts that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of commodity and financial contracts that are used to protect the value of future cash flows.

	31 December 2021						
Exposure	Notional value of contracts (MWh, allowances)	Average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Commodity contracts							
Sale of power	2,585,113	72.83	(181.0)	874.1	(1,052.0)	(138.6)	–
Purchase of carbon emissions allowances	161,000	57.79	17.7	3.4	(2.8)	0.4	–

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Commodity contracts								
Sale of power	181.0	(181.0)	–	Revenue	–	6.3	–	Revenue
Purchase of carbon emissions allowances	(17.7)	17.7	–	Cost of sales	–	(17.2)	–	Cost of sales

7.2 Financial risk management continued

Exposure	Notional value of contracts (MWh, allowances)	Average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
	31 December 2020						
Commodity contracts							
Sale of power	1,203,257	52.32	(36.6)	102.1	(106.4)	(3.4)	–
Purchase of carbon emissions allowances	–	n/a	16.5	–	–	–	–
Financial contracts							
Financial coal	–	n/a	(1.6)	–	–	–	–

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the reclassification/ transfer
	31 December 2020							
Commodity contracts								
Sale of power	36.6	(36.6)	–	Revenue	–	(65.2)	25.3	Revenue
Purchase of carbon emissions allowances	(16.5)	16.5	–	Cost of sales	(28.8)	–	(1.7)	Cost of sales
Financial contracts								
Financial coal	1.6	(1.6)	–	Cost of sales	–	–	5.6	Cost of sales

7.2.2 Foreign currency risk

The Group is exposed to fluctuations in foreign currency rates as a result of committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business and principal and interest payments relating to foreign currency denominated debt. These fuel purchases are typically denominated in US dollars (USD), Canadian dollars (CAD) or euros (EUR), and the foreign currency debt is denominated in USD, CAD and EUR (see note 4.2 for further details on the Group's borrowings).

The Group also has an exposure to translation risk in relation to its net investment in its US subsidiaries that are part of Drax Biomass Inc. and Pinnacle Renewable Holdings USA, and it's Canadian subsidiaries that are part of Pinnacle Renewable Energy Inc..

Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening/ weakening of currencies against GBP. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
31 December 2021				
USD	**592.9**	**(227.4)**	**177.2**	**(144.8)**
EUR	**28.4**	**(25.8)**	**33.9**	**(27.8)**
CAD	**35.8**	**(25.0)**	**22.4**	**(18.2)**

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
31 December 2020				
USD	159.3	(58.7)	249.2	(204.1)
EUR	36.3	(22.8)	10.1	(8.3)
CAD	27.7	(17.8)	25.6	(21.0)

7.2 Financial risk management continued

Profit after tax is sensitive to the strengthening/weakening of other currencies as a result of the impact on the fair value of foreign currency derivatives not designated as hedging instruments under cash flow hedge accounting. The Group designates certain foreign currency derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to the strengthening/weakening of other currencies in relation to the impact on the hedge reserve of these movements.

Foreign currency risk management

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to protect the sterling values of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts in line with the currency risk management policy, including forwards and options, to manage the risks associated with its anticipated foreign currency requirements over a rolling five-year period, covering contracted exposures and a proportion of highly probable forecast transactions.

In addition, in order to optimise the cost of funding, the Group has issued foreign currency denominated debt in USD, CAD and EUR (see note 4.2). The Group utilises derivative contracts, including cross-currency interest rate swaps, to manage exchange risk on foreign currency debt.

Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments. Foreign currency exchange contracts that are designated as hedges are transferred from equity to inventory for hedges of fuel purchases.

Cross-currency interest rate swap gains and losses that are effective at hedging the foreign exchange risk on the interest payments are released to interest payable and similar charges. Gains and losses that are effective at hedging the foreign exchange risk on the USD or EUR principal are released to foreign exchange gains/(losses) to offset gains and losses on retranslating the USD and EUR denominated hedged borrowings.

The Group has taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with $500 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has also taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with €250 million 2025 fixed rate loan notes to again fix the sterling cash flows payable on the debt. On the EUR denominated facilities agreed as part of the 2020 infrastructure term loan, the Group has fixed the sterling cash flows payable on this debt through a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.

The main sources of ineffectiveness relating to foreign currency exchange contracts are timing differences and credit risk.
The main sources of ineffectiveness relating to cross-currency interest rate swaps are differences in the critical terms, differences in repricing dates and credit risk.

The reconciliation of the reserves and when the amount will affect the Consolidated income statement or will be removed from equity and included in the initial cost of the non-financial item are disclosed in notes 7.3 and 7.4.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in t he table below. Ineffectiveness on foreign currency exchange contracts is recognised in cost of sales if it relates to hedges of fuel purchases. Ineffectiveness on cross-currency interest rate swaps that are hedging principal and interest payments are recognised in interest payable and similar charges if the ineffectiveness relates to interest payments, and foreign exchange losses/(gains) if it relates to the principal repayment.

There are €95 million of floating-to-fixed cross-currency interest rate swaps that are hedging both foreign currency risk and interest rate risk. These swaps have been separated into synthetic floating-to-floating cross-currency interest rate swaps, that are hedging foreign currency risk, and synthetic floating-to-fixed GBP interest rate swaps, that are hedging interest rate risk. The synthetic floating-to floating cross-currency interest rate swaps are disclosed in this section, and the synthetic floating-to-fixed GBP interest rate swaps are disclosed in note 7.2.3 relating to interest rate risk.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's foreign currency hedging instruments that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of currency derivatives that are used to protect the sterling value of future cash flows.

7.2 Financial risk management continued

Exposure	Notional value of contracts ($m €m, C$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
	31 December 2021						
Foreign currency purchase contracts							
Purchases in foreign currency – USD	2,231.4	$1.38	16.3	50.9	(11.7)	(40.5)	–
Purchases in foreign currency – EUR	320.0	€1.11	(19.4)	–	(17.0)	(15.0)	–
Purchases in foreign currency – CAD	447.6	C$1.76	4.2	6.0	(0.6)	(1.6)	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	7.6	–	(39.0)	5.8	–
Interest and principal repayments – EUR	376.5	3.32%/ 3M LIBOR + 125.3bps	(10.4)	–	(9.4)	12.0	–

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
	31 December 2021							
Foreign currency purchase contracts								
Purchases in foreign currency – USD	(16.3)	16.3	–	Cost of sales	32.9	–	–	Inventory
Purchases in foreign currency – EUR	19.4	(19.4)	–	Cost of sales	0.3	–	–	Inventory
Purchases in foreign currency – CAD	(4.2)	4.2	–	Cost of sales	–	–	–	Inventory
Foreign currency denominated debt								
Interest and principal repayments – USD	(7.6)	7.6	–	Interest payable and similar charges	–	(6.2)	–	Interest payable and similar charges
			–	Foreign exchange (losses)/ gains	–	1.7	–	Foreign exchange (losses)/ gains
Interest and principal repayments – EUR	10.4	(10.4)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
			–	Foreign exchange (losses)/ gains	–	24.3	–	Foreign exchange (losses)/ gains

7.2 Financial risk management continued

Exposure	Notional value of contracts ($m, €m, C$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
	31 December 2020						
Foreign currency purchase contracts							
Purchases in foreign currency – USD	3,229.4	$1.38	(44.2)	36.6	(51.7)	(82.3)	–
Purchases in foreign currency – EUR	67.0	€1.11	(0.3)	–	(2.2)	(0.2)	–
Purchases in foreign currency – CAD	499.6	C$1.76	(3.4)	3.7	(3.1)	(5.1)	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	(1.4)	–	(47.2)	3.6	–
Interest and principal repayments – EUR	376.5	3.32%/ 3M LIBOR + 125.3bps	(1.5)	0.1	(1.5)	(0.8)	–

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
	31 December 2020							
Foreign currency purchase contracts								
Purchases in foreign currency – USD	44.2	(44.2)	–	Cost of sales	(102.2)	–	–	Inventory
Purchases in foreign currency – EUR	0.3	(0.3)	–	Cost of sales	6.5	–	–	Inventory
Purchases in foreign currency – CAD	3.4	(3.4)	–	Cost of sales	(12.5)	–	–	Inventory
Foreign currency denominated debt								
Interest and principal repayments – USD	1.4	(1.4)	–	Interest payable and similar charges	–	(9.9)	–	Interest payable and similar charges
				Foreign exchange (losses)/ gains	–	11.8	–	Foreign exchange (losses)/ gains
Interest and principal repayments – EUR	1.5	(1.5)	–	Interest payable and similar charges	–	0.3	–	Interest payable and similar charges
				Foreign exchange (losses)/ gains		0.3	–	Foreign exchange (losses)/ gains

7.2 Financial risk management continued

7.2.3 Interest rate risk

The Group has exposure to interest rate risk, principally in relation to variable rate debt, cash and cash equivalents and the RCF, should it be drawn. The Group has taken out GBP LIBOR floating-to-fixed interest rate swaps to fix the interest payments on the £375 million private placement issued in 2019. On the 2020 infrastructure term loan facilities the Group has fixed the interest rate payable on the £98 million of GBP denominated facilities through floating-to-fixed GBP LIBOR interest rate swaps. The Group has also fixed the interest rate payable on the variable rate euro denominated debt through floating-to-fixed cross-currency interest rate swaps. As detailed in section 7.2.2 above, the floating-to-fixed cross-currency interest rate swaps are hedging both interest rate risk and foreign currency risk, as such the disclosures relating to interest rate risk are included in this section. See note 7.2.2 for the foreign currency risk disclosures relating to the floating-to-fixed cross-currency interest rate swaps.

At 31 December 2021, the Group has fixed interest rate payments on the majority of its debt instruments through the use of swaps. The Group acquired Pinnacle in the year and as part of this acquired CAD denominated debt. The Group refinanced this debt during the year (see note 4.2 for further details). This CAD debt has a variable rate based on Canadian Dollar Offered Rate (CDOR). There are currently no swaps in place in relation to the debt and therefore it remains variable.

When including the impact of swaps the Group's CAD denominated debt is the only debt that remains variable and therefore interest rate payments are not fixed. All of the remaining Group's debt has fixed interest rate payments in GBP.

The return generated on the Group's cash balance, or on amounts drawn on the RCF are exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

Further information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.2.

Interest rate benchmark reform

The only interest rate benchmark to which the Group is exposed to, that is subject to interest rate benchmark reform, is GBP LIBOR. These exposures relate to derivative and non-derivative financial instruments. All of the Group's USD borrowings are at fixed rates so are not impacted by IBOR reform. The group does have some floating rate EURIBOR-linked borrowings and related cross-currency interest rate swaps, however as EURIBOR is not being replaced, these financial instruments are not impacted by IBOR reform unless further reform to EURIBOR will be made in future. The Group's RCF facility could be drawn in USD. Any USD drawings referenced USD LIBOR, however the Group has had no cash drawings under the RCF for a number of years.

In response to the IBOR reform, the Group engaged the following work streams: risk management, tax, treasury, legal and accounting. The aim of the programme was to identify any IBOR exposures within the business that are impacted by the reform, and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

The Group had a number of GBP LIBOR-linked derivative and non-derivative financial instruments with maturity dates beyond 31 December 2021, the date LIBOR is due to cease publication. As such, during the year the Group's IBOR programme has transitioned, or agreed to transition in 2022, these financial instruments away from GBP LIBOR. Further details of this are provided below.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Phase 2 of IBOR Reform provides reliefs from financial reporting impacts of the replacement of an existing interest rate benchmark with an alternative benchmark rate as a result of IBOR Reform. IBOR Reform Phase 2 provides key reliefs regarding a practical expedient for changes to contractual cash flows as a direct consequence of IBOR Reform and hedge accounting reliefs for hedging relationships directly affected by IBOR Reform.

Changes in contractual cash flows

IBOR Reform Phase 2 provides a practical expedient that avoids the recognition of a modification gain or loss in the Consolidated income statement, or the derecognition of the financial instrument, as a result of changes caused directly as a result of IBOR Reform. This practical expedient is required to be applied when both of the following conditions are met:

- the change in the basis for determining contractual cash flows must be necessary as a direct consequence of IBOR Reform
- the new basis for determining the contractual cash flows must be economically equivalent to the previous basis immediately preceding the change

If the practical expedient applies, then the effective interest rate of the financial instrument is updated without adjusting the carrying value, consistent with the requirements of IFRS 9 in relation to movements in market rates of interest for floating-rate financial instruments.

Subsequent to the application of the practical expedient, if there are also any additional changes to the contractual cash flows to which the practical expedient does not apply, if they would result in derecognition under IFRS 9, then the financial instrument is derecognised and a new financial instrument is recognised. If there are any additional changes to the contractual cash flows to which the practical expedient does not apply, that would not result in derecognition under IFRS 9, a modification gain or loss is recognised to adjust the carrying value of the financial instrument based on the updated effective interest rate.

7.2 Financial risk management continued

Hedge relationships

IBOR Reform Phase 2 also provides reliefs to allow hedge accounting to continue where amendments are required to be made to the hedge documentation. Consistent with the changes to the contractual cash flow explained above, this relief only applies if the changes to the hedge documentation are necessary as a direct consequence of IBOR Reform and the new basis for determining the contractual cash flows must be economically equivalent to the previous basis. The relief provides a temporary exemption that requires the formal designation of the hedging relationship to be amended (e.g. designating the alternative benchmark as the hedged risk and amending the description of the hedged item and hedging instrument), which without the relief would normally result in the discontinuation of hedge accounting. The relief allows these amendments to be made to the hedge documentation without discontinuing hedge accounting.

If there are any additional changes to which the practical expedient does not apply, these changes are first assessed against the IFRS 9 requirements for hedge accounting to determine if the change should result in the discontinuance of hedge accounting. If the change does not result in the discontinuance of hedge accounting, the formal designation of the hedge relationship is amended in line with the Phase 2 relief explained above.

At the point the hedge documentation is amended under the Phase 2 relief, any amounts accumulated in the cash flow hedge reserve are deemed to be based on the alternative benchmark.

The Group has a number of hedging relationship or financial instruments to which the Phase 2 amendments are relevant, principally:

- cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge of IBOR-linked cash flows (GBP LIBOR)
- floating rate borrowings which reference IBORs that are subject to the reform (GBP LIBOR)

If the Group had not applied the Phase 2 amendments, due to the Group agreeing to transition GBP LIBOR linked interest rate swaps and borrowings to SONIA in the year, the Group's cash flow hedge accounting for the GBP LIBOR-linked cash flows that the swaps were hedging would have had to be discontinued and the amounts accumulated in the hedge reserve relating to these hedges would have had to have been reclassified to the Consolidated income statement. As a result of applying the Phase 2 amendments, hedge accounting has not been discontinued and the amounts accumulated in the hedge reserve relating to these hedges were deemed to be based on the new SONIA benchmark.

Phase 2 amendments has also meant that the Group has amended the effective interest rate in the floating rate GBP LIBOR-linked borrowings that have been transitioned to SONIA. Had the Phase 2 amendments not been applied the Group would have had to derecognise the borrowings and recognise a new financial liability for the borrowings, with any gain or loss as a result of this being recognised in the Consolidated income statement.

Financial instruments directly impacted by IBOR reform

Detailed below are the financial instruments directly impacted by IBOR reform and the transition progress made on each of these financial instruments.

GBP LIBOR-linked borrowings

The Group has a £375 million private placement (2019) and has £98 million of the 2020 infrastructure term loan facilities that are linked to a floating rate GBP LIBOR benchmark. The maturity dates for all of these borrowings is beyond 31 December 2021. These contracts did not include adequate fallback provisions to cope with the cessation of GBP LIBOR. As such, the Group has engaged with the relevant counterparties during the year and agreed to amend the agreements to transition from GBP LIBOR to SONIA plus a credit adjustment spread (CAS) at the start of the first interest period subsequent to 31 December 2021. The amendments were all agreed pre 31 December 2021. The CAS per the amended agreements is consistent with the ISDA spread adjustments as calculated and published by Bloomberg. No other terms were amended as part of the transition.

The Group applied the practical expedient established by the Phase 2 amendments, meaning the change in basis for determining the contractual cash flows resulted in the Group revising the effective interest rate with no immediate gain or loss recognised, and did not result in derecognition of the financial liability (See the Accounting policies section on page 179 for further details on the Phase 2 amendments).

7.2 Financial risk management continued

Derivatives

The Group has a number of GBP LIBOR floating-to-fixed interest rate swaps, which fix the value of interest payable on the GBP LIBOR-linked borrowings discussed above. The transition from GBP LIBOR to SONIA was agreed at the same time as the transition agreements for the related borrowings. The Group has engaged with the relevant counterparties during the year and agreed to amend the swaps to transition from GBP LIBOR to SONIA plus a CAS. Consistent with the GBP LIBOR-linked borrowings, the new benchmark rates will be applicable from the start of the next interest period subsequent to 31 December 2021 and the CAS per the transitioned swaps is consistent with the ISDA spread adjustments as calculated and published by Bloomberg.

The Group has applied the practical expedient established by the Phase 2 amendments, meaning the transition to a SONIA benchmark rate from GBP LIBOR for these interest rate swaps has not resulted in the discontinuance of hedge accounting, and the amounts accumulated in the hedge reserve at transition were deemed to be based on the SONIA benchmark rate.

GBP LIBOR-linked facilities

The Group has a number of committed and uncommitted facilities that referenced LIBOR that have either already transitioned to new benchmark rates or the LIBOR exposures will have matured prior to the cessation of LIBOR and new amounts utilised under these facilities will reference the new benchmark rates.

RCF

The Group has an RCF facility under which cash drawings are able to be drawn in GBP and USD. Cash drawings under these facilities were linked to GBP LIBOR and USD LIBOR. The Group has agreed to transition this facility to SONIA from GBP LIBOR and Secured Overnight Financing Rate (SOFR) from USD LIBOR. Any new drawings from September 2021 would be based on the new benchmark rates. No cash amounts were utilised under the RCF at the transition date in September 2021.

Receivables monetisation facility

The Group's receivables monetisation facility references GBP LIBOR. The Group transitioned this facility to SONIA from GBP LIBOR in December 2021. Amounts utilised under these facilities referencing GBP LIBOR will mature and then any new drawings from the December transition date will reference the new benchmark rate.

Uncommitted facilities

The Group has access to certain payment facilities, including deferred letters of credits, that reference GBP LIBOR. The Group transitioned these facilities to SONIA from GBP LIBOR in December 2021. Amounts utilised under these facilities referencing GBP LIBOR will mature and then any new drawings from the agreed transition date will reference the new benchmark rate.

The tables below detail the derivative and non-derivative financial instruments impacted by IBOR reform where the transition to a new benchmark rate occurs after 31 December 2021. The quantitative information provided below for non-derivative financial assets and liabilities is based on the contractual par amount. The derivative financial instruments information provided below is based on the nominal amounts per the contracts:

Non-derivative financial instrument	Pre-transition benchmark rate	Nominal value £m	Maturity date	Hedge accounting applied	Transition progress	New benchmark rate
Borrowings – 2019 private placement	GBP LIBOR	375	2024 – 2029	Cash flow hedge	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA
Borrowings – 2020 infrastructure term loan facilities	GBP LIBOR	98	2026 – 2028	Cash flow hedge	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA

Derivative financial instrument	Pre-transition benchmark rate	Nominal value £m	Maturity date	Hedge accounting applied	Hedged item	Transition progress	New benchmark rate
Pay 3-month GBP LIBOR received GBP fixed interest rate swap	GBP LIBOR	375	2024 – 2026	Cash flow hedge	Floating rate GBP LIBOR borrowings – 2019 private placement	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA
Pay 3-month GBP LIBOR received GBP fixed interest rate swap	GBP LIBOR	98	2026	Cash flow hedge	Floating rate GBP LIBOR borrowings – 2020 infrastructure term loan facilities	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA

The Group had agreed to transition all derivative and non-derivative financial instruments it expects to be impacted by IBOR reform to alternative benchmark rates by 31 December 2021. Certain agreements were signed after 31 December 2021, but had been agreed pre 31 December 2021.

7.2 Financial risk management continued

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in interest rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
31 December 2021				
Variable rate debt – unhedged	**(1.4)**	**1.4**	**–**	**–**
Variable rate debt – hedged	**(4.0)**	**0.7**	**–**	**–**
Interest rate swaps	**4.0**	**(0.7)**	**14.6**	**(11.3)**
Net	**(1.4)**	**1.4**	**14.6**	**(11.3)**
31 December 2020				
Variable rate debt – hedged	(3.5)	0.1	–	–
Interest rate swaps	4.1	(0.1)	17.8	(0.4)
Net	0.6	–	17.8	(0.4)

Profit after tax is sensitive to an increase/decrease in interest rates as a result of the impact on the interest payable in the period on any floating rate debt. The Group has reduced its exposure to interest rate risk on variable rate debt through the use of floating-to-fixed interest rate swaps and therefore a change in interest rates would not have a significant effect on profit after tax. The Group designates certain floating-to-fixed interest rate swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in interest rates in relation to the impact on the hedge reserve of these movements.

Certain of the Group's variable rate debt and interest rate swaps have a floor of 0% for the benchmark interest rate. As a result of very low or negative benchmark interest rates, a 100 basis points increase has a larger impact on profit after tax and other components of equity, than a 100 basis points decrease. The Group also has CAD denominated debt that has a variable rate based on CDOR. At 31 December 2021 no swaps were in place to hedge the CAD denominated debt. Therefore in relation to this debt a change in interest rates has an impact on profit after tax but not on other components of equity.

Additionally, in the prior year the group had hedges in place for debt that was committed but not yet drawn. As a result, in the prior year, a change in basis points has a larger impact on profit after tax for interest rate swaps than the variable rate debt due to the impact of the undrawn borrowings not being included. These borrowings were drawn down on 18 February 2021 and therefore in the current year the impact of a change in basis points on profit after tax of these new borrowings is included within the variable rate debt.

Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

Hedge accounting

The Group designates the floating-to-fixed GBP interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The GBP interest rate swaps are hedges of the interest payments relating to the £375 million private placement (2019) and the £98 million of facilities as part of the 2020 infrastructure term loan. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the variable rate €95 million of facilities that were drawn as part of the 2020 infrastructure term loan. As such this has been separated into synthetic floating-to-floating cross-currency interest rate swaps and synthetic floating-to-fixed GBP interest rate swaps. The synthetic floating-to-floating cross-currency interest rate swaps swap the €95 million variable rate EURIBOR linked debt to variable rate LIBOR linked GBP debt with a principal of £85.8 million. The synthetic floating-to-fixed GBP interest rate swaps then swaps the variable interest rate for a fixed GBP interest rate. Details of the floating-to-fixed GBP interest rate swaps are included in the disclosures below.

Gains and losses on the interest payments on interest rate swaps are released to interest payable and similar charges at the same time as the interest expense on the hedged borrowings.

The main sources of ineffectiveness relating to interest rate risk hedges are differences in the critical terms, differences in repricing dates and credit risk.

7.2 Financial risk management continued

The summary of the amounts relating to the sterling interest rate hedging instruments and any related ineffectiveness in the period is presented in the table below.

	31 December 2021						
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Interest rate							
Variable rate GBP debt	**558.8**	**1.06%**	**19.3**	**4.6**	**–**	**4.2**	**–**

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Interest rate								
Variable rate GBP debt	**(21.0)**	**19.3**	**–**	**Interest payable and similar charges**	**–**	**3.3**	**–**	**Interest payable and similar charges**

	31 December 2020						
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Interest rate							
Variable rate GBP debt	558.8	1.06%	(15.9)	–	(18.3)	(13.8)	–

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Interest rate								
Variable rate GBP debt	17.5	(15.9)	–	Interest payable and similar charges	–	3.0	–	Interest payable and similar charges

7.2.4 Inflation risk

The Group is exposed to inflation risk on elements of its revenues and cost base. The Group's ROC revenue is linked to UK RPI and its Contract for Difference (CfD) revenue is linked to UK CPI. In addition, a proportion of the Group's fuel costs are linked to either US or CAD CPI. The Group has entered UK CPI and RPI swaps. US CPI swaps were used in the year to hedge the future cash flows relating to a proportion of its exposures, however these swaps were closed out during the year. The Group also benefits from a natural hedge arising from its inflation-linked borrowings.

7.2 Financial risk management continued

Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates for both derivatives and non-derivative instruments at the balance sheet date.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in inflation rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
31 December 2021				
UK CPI inflation swaps	–	–	(6.0)	6.0
UK RPI inflation swaps	(38.9)	37.2	(48.5)	46.6

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
31 December 2020				
UK CPI inflation swaps	–	–	(1.6)	1.6
US CPI inflation swaps	4.9	(4.9)	–	–

The Group designates the UK CPI and RPI inflation swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in UK inflation rates in relation to the impact on the hedge reserve of these movements. Profit after tax is sensitive to an increase/decrease in UK inflation rates due to the impact these rate changes would have on the amount reclassified to the Consolidated income statement. Profit after tax is also sensitive to an increase/decrease in UK inflation rates due to the impact this would have on the fair value of the unhedged UK RPI inflation swaptions.

Inflation risk management

The Group has a risk management policy in place relating to inflation risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast inflation exposure.

Hedge accounting

The Group has contracts for which the revenue is contractually linked to UK CPI inflation. The Group has designated this risk component as a hedged item. UK CPI and UK RPI inflation swaps are utilised as the hedging instruments for these inflation risks.

Gains and losses on the inflation swaps are held in the hedge reserve and reclassified to the Consolidated income statement within the revenue line at the same time the revenue from the inflation linked contracts impacts on the Consolidated income statement.

During the prior year the Group crystallised the gains on a number of UK CPI inflation swaps. The forecast cash flows that these inflation swaps were hedging are still expected to occur. Therefore the gain of £24.4 million that was crystalised relating to these contracts is being deferred in the hedge reserve and reclassified to the income statement when the hedged item impacts the income statement. At 31 December 2021 there is £22.0 million (2020: £24.4 million) still deferred in the hedge reserve.

The main sources of ineffectiveness relating to the inflation swaps are the basis difference between the RPI swaps and the CPI-linked revenues they are hedging, and calculation differences. Calculation differences occur due to differences between the reference months used to calculate the inflationary increase per the swaps and the reference months used to calculate the inflationary increase for the CPI-linked revenues

7.2 Financial risk management continued

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

	31 December 2021						
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	30.3	CPI – 2.72%	(15.7)	1.3	(11.5)	(10.9)	22.0
	495.0	RPI – 3.42%	(19.5)	–	(82.2)	(15.2)	–

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales contracts – CPI	15.7	(15.7)	–	Revenue	–	(2.2)	–	Revenue
	21.7	(19.5)	–	Revenue	–	–	–	Revenue

	31 December 2020						
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	15.0	2.44%	17.0	6.2	–	1.6	24.4

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales contracts – CPI	(17.0)	17.0	–	Revenue	–	(1.3)	–	Revenue

7.2 Financial risk management continued

7.2.5 Liquidity risk

The Treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items (principally those related to ROC sales and Customers power sales). In each case this is undertaken on a non-recourse basis and accordingly, the ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.4.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2021					
	Within 3 months £m	3 months–1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	46.4	14.7	17.5	650.9	138.7	868.2
Loan notes, gross value	–	30.0	30.0	639.6	–	699.6
Borrowings, contractual maturity	46.4	44.7	47.5	1,290.5	138.7	1,567.8
Trade and other payables	826.9	40.1	0.6	0.7	1.2	869.5
Lease liabilities	5.5	15.7	18.9	46.4	78.4	164.9
	878.8	100.5	67.0	1,337.6	218.3	2,602.2

Trade and other payables of £869.5 million (2020: £619.4 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

	As at 31 December 2020					
	Within 3 months £m	3 months–1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	2.5	10.4	49.7	270.5	222.8	555.9
Loan notes, gross value	–	30.1	30.1	679.5	–	739.7
Borrowings, contractual maturity	2.5	40.5	79.8	950.0	222.8	1,295.6
Trade and other payables	576.0	40.9	0.4	2.1	–	619.4
Lease liabilities	2.1	5.8	5.9	12.6	8.4	34.8
	580.6	87.2	86.1	964.7	231.2	1,949.8

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.49% (2020: 3.88%).

The following tables set out details of the expected contractual maturity of derivative financial liabilities which are marked-to-market based on the undiscounted cash flows. Where the amount payable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date. Where derivatives are expected to be gross settled the gross cash flows have been presented. Commodity contracts and vanilla foreign currency exchange contracts are expected to be gross settled. Where derivatives are expected to be net settled, the net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards) are expected to be net settled. Interest rate contracts and inflation rate contracts are presented based on net settlement of the interest rate and inflation rate differentials. Gross settlement of the principal on cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

7.2 Financial risk management continued

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	175.9	27.4	2.1	205.4
Financial contracts	45.1	55.8	1.5	102.4
Foreign currency exchange contracts	2,306.9	148.7	705.3	3,160.9
Interest rate and cross-currency contracts	3.1	43.9	1.0	48.0
Inflation contracts	52.0	10.1	78.2	140.3
	2,583.0	285.9	788.1	3,657.0

	As at 31 December 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	13.5	17.3	7.7	38.5
Financial contracts	25.8	9.4	1.8	37.0
Foreign currency exchange contracts	2,409.6	381.3	767.7	3,558.6
Interest rate and cross-currency contracts	7.0	10.9	53.5	71.4
	2,455.9	418.9	830.7	3,705.5

7.2.6 Counterparty risk

As the Group relies on third party suppliers and counterparties for the delivery of currency, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

7.2.7 Credit risk

The Group's gross exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December	
	2021 £m	2020 £m
Financial assets:		
Cash and cash equivalents (note 4.1)	317.4	289.8
Trade and other receivables (note 3.5)	572.0	492.7
Derivative financial instruments (note 7.1)	1,246.1	283.3
	2,135.5	1,065.8

Trade and other receivables are stated gross of the provision for expected credit losses on trade receivables of £46.6 million (2020: £56.4 million) and expected credit losses on accrued income of £8.6 million (2020: £3.5 million). The balance excludes non-financial receivables such as prepayments.

The Group's three operating segments (Generation, Customers and Pellet Production segments) are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers.

The highest risk is in the Customers segment, with a high number of customers of varying sizes operating in a variety of markets. In particular, its SME customers carry lower concentrations but higher levels of credit risk, owing to a customer base comprised largely of smaller retail and commercial entities.

In the Customers segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector.

7.2 Financial risk management continued

For the Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as the sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating. Counterparty credit exposures are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deed of charge, cash collateral, letters of credit and surety bonds. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The Pellet Production segment sells biomass pellets both intra-group and with external parties. Credit risk for the Group relates to the sales made to external parties. The majority of the Pellet Production segment's external sales are with large utility customers in Europe and Asia. The Pellet Production segment manages its credit risk by reviewing individual sales contracts, considering the length of the contract and assessing the credit quality of counterparties prior to signing contracts and throughout the duration of contracts.

Further details on the impact of credit risk on trade and other receivables is disclosed in note 3.5.

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty based on their rating, and the maturity profile.

Whilst cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group is exposed to credit risk on derivative contracts, to which the impairment requirements of IFRS 9 are not applied. The carrying amount of these financial assets, disclosed above, represents the Group's maximum credit risk exposure.

Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintaining a strong credit rating underpinned by robust financial metrics; investing in its core business and pay a sustainable and growing dividend while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings and cash and cash equivalents as disclosed in note 4.2 and 4.1 respectively.

See note 2.10 for details on dividend restrictions, note 4.2 for details of covenants, and the Viability statement on page 74 for details of scenario analysis performed on covenant restrictions of the Group's financing facilities.

	As at 31 December	
	2021 £m	2020 £m
Borrowings (note 4.2)	**1,361.0**	1,065.7
Cash and cash equivalents (note 4.1)	**(317.4)**	(289.8)
Net debt (note 4.3)	**1,043.6**	775.9
Total shareholders' equity, excluding hedge and cost of hedging reserves	**1,405.7**	1,328.2

7.3 Hedge reserve

The Group designates certain hedging instruments that are used to address commodity price risk, foreign exchange risk, interest rate risk and inflation rate risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

The table below details the gains/(losses) recognised in the year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting profit or loss, and the amounts reclassified due to the hedged future cash flows no longer being expected to occur. See section 7.2 for further details on these amounts.

	Hedge reserve				
	Commodity price risk £m	Foreign currency exchange risk £m	Interest rate risk £m	Inflation rate risk £m	Total £m
At 1 January 2020	**68.3**	**43.1**	**(3.5)**	**13.6**	**121.5**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(21.7)	(50.8)	(15.9)	17.0	(71.4)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	–	(108.2)	–	–	(108.2)
– Reclassified to the income statement – included in cost of sales	(28.8)	–	–	–	(28.8)
– Reclassified to the income statement – included in revenue	(65.2)	–	–	(1.3)	(66.5)
– Reclassified to the income statement – included in interest payable and similar charges	–	(9.6)	3.0	–	(6.6)
– Reclassified to the income statement – included in foreign exchange gains/(losses)	–	12.1	–	–	12.1
Reclassified from equity as the hedged future cash flows are no longer expected to occur					
– Reclassified to the income statement – included in cost of sales	3.9	–	–	–	3.9
– Reclassified to the income statement – included in revenue	25.3	–	–	–	25.3
Related deferred tax, net (note 2.6)	14.8	28.6	2.6	(3.3)	42.7
At 31 December 2020	**(3.4)**	**(84.8)**	**(13.8)**	**26.0**	**(76.0)**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(163.3)	(1.7)	19.3	(35.2)	(180.9)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	–	33.2	–	–	33.2
– Reclassified to the income statement – included in cost of sales	(17.2)	–	–	–	(17.2)
– Reclassified to the income statement – included in revenue	6.3	–	–	(2.2)	4.1
– Reclassified to the income statement – included in interest payable and similar charges	–	(3.6)	3.3	–	(0.3)
– Reclassified to the income statement – included in foreign exchange gains/(losses)	–	26.0	–	–	26.0
Related deferred tax, net (note 2.6)	39.4	(8.4)	(4.6)	7.3	33.7
At 31 December 2021	**(138.2)**	**(39.3)**	**4.2**	**(4.1)**	**(177.4)**

7.3 Hedge reserve continued

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(20.9)	(110.2)	(7.1)	(138.2)
Foreign currency exchange risk	(28.0)	(9.0)	(2.3)	(39.3)
Interest rate risk	(0.6)	1.2	3.6	4.2
Inflation risk	(0.5)	(0.4)	(3.2)	(4.1)
	(50.0)	(118.4)	(9.0)	(177.4)

	As at 31 December 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(9.6)	7.7	(1.5)	(3.4)
Foreign currency exchange risk	(21.9)	(21.6)	(41.3)	(84.8)
Interest rate risk	(4.1)	(4.1)	(5.6)	(13.8)
Inflation risk	1.8	2.6	21.6	26.0
	(33.8)	(15.4)	(26.8)	(76.0)

7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of foreign currency derivative contracts to a cost of hedging reserve in accordance with IFRS 9.

A large proportion of the derivative contracts held relate to foreign exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, the Group has continued to designate the change in fair value of the spot rate in the Group's cash flow hedge relationships. The Group designates the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. All amounts within the cost of hedging reserve relate to foreign currency exchange risk.

The table below details the cost of hedging gains/(losses) recognised in the year on hedging instruments and the amounts reclassified from equity due to the hedged item affecting profit or loss:

	Cost of hedging	
	2021 £m	2020 £m
At 1 January	**87.2**	40.8
Gains recognised:		
– Change in fair value of hedging instrument recognised in OCI	**17.3**	53.3
Reclassified from equity as the hedged item has affected profit or loss:		
– Reclassified to the income statement – included in cost of sales	**(23.7)**	5.2
Related deferred tax, net (note 2.6)	**(2.3)**	(12.1)
At 31 December	**78.5**	87.2

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	**25.5**	**28.3**	**24.7**	**78.5**

	As at 31 December 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	34.5	20.8	31.9	87.2

7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group also has financial asset and liabilities with certain counterparties that are subject to master netting agreements. Some financial assets and liabilities do not meet the criteria for offsetting at the balance sheet date but are subject to an enforceable master netting agreement that in certain circumstances, such as a bankruptcy, would allow for the amounts to be offset and a single net amount payable.

The table below shows the impact if the carrying amounts that are subject to these master netting agreements were offset:

	As at 31 December 2021				As at 31 December 2020			
	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m
Financial assets								
Derivative financial instruments	**1,246.1**	**(1,008.3)**	**(183.0)**	**54.8**	283.3	(229.4)	(6.6)	47.3
Financial liabilities								
Derivative financial instruments	**(1,504.5)**	**1,008.3**	**10.2**	**(486.0)**	(453.6)	229.4	2.1	(222.1)

The aforementioned collateral balances are recorded in other receivables or other payables respectively.

7.6 Contingent assets and liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

Guarantees

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2021, the Group's contingent liability in respect of letters of credit issued under the RCF amounted to £74.4 million (2020: £67.8 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £142.1 million (2020: £86.7 million).

Collateral is sometimes required to be provided in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be provided to the counterparty. These positions reverse when contracts are settled, and the collateral is returned. The Group has access to certain facilities to enable it to cover collateral requirements to counterparties through letters of credit or surety bonds.

The letters of credit and surety bond amounts above include amounts utilised to cover commodity trading collateral requirements of £42.5 million (2020: £10.5 million) and £107.1 million (2020: £45.0 million) respectively. See note 4.1 for details on net cash collateral the Group has received from counterparties.

HSE legal action

During the year the Group received notice of legal action from the Health and Safety Executive (HSE) in relation to wood dust at Drax Power Station regarding operations prior to 2017. No amount has been provided in respect of this legal action as, supported by legal advice, the Group believes it is in a strong position to be able to defend this claim.

7.7 Commitments

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of biomass, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided in the financial statements	**28.6**	49.8
Future support contracts not provided in the financial statements	**51.2**	53.6
Future commitments to purchase ROCs	**200.5**	221.1
Future commitments to purchase biomass under fixed and variable priced contracts	**2,969.4**	3,541.6
Future commitments to purchase fibre under fixed and variable priced contracts	**356.8**	125.8

The contractual maturities of the future commitments to purchase biomass are as follows:

	As at 31 December	
	2021 £m	2020 £m
Within one year	**738.0**	731.2
Within one to five years	**2,216.6**	2,357.5
After five years	**14.8**	452.9
	2,969.4	3,541.6

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in the financial statements owing to them not being within the scope of IFRS 9 and therefore not required to be measured at fair value (see note 7.1).

Previously, the Group had a secured commodity trading line, which allowed it to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements were entitled to share in the security as described above. During the prior year the Group opted to close the secured commodity trading line due to its limited utilisation and as such no further trades were able to utilise the line. The final trades utilising the line matured in March 2021.

Section 8: Reference information

This section details reference information relevant to the compiling of the financial statements and provides the general information about the Group (e.g. operations and registered office). The Group also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- Power generation;
- Gas and electricity supply to business customers; and
- Manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK and North America.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 Basis of preparation

Adoption of new and revised accounting standards

One amendment became effective for the first time in 2021. The Group adopted the following from 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

See page 179 in the Basis of Preparation and note 7.2.3 for details of this amendment and its impact on the Group's financial statements.

In April 2021, the IFRS Interpretations Committee's published its agenda decision that clarified the accounting for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. See page 179 in the Basis of Preparation for details of the expected impact and application of this policy change by the Group.

From 1 January 2021, IFRS (in the context of company law) means international standards and interpretations that have been endorsed by the UK. UK Endorsement Board (UKEB) is the body responsible for the endorsement process.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective. All were pending endorsement by the UKEB:

- IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.
- IFRS 17 Insurance contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current and Non-current – effective date to be confirmed.
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023.
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023.
- IAS 12 (amended) – Deferred Tax related to Assets and Liabilities arising from a single Transaction – effective from 1 January 2023
- IAS 12 (amended) – Income Taxes – Assets and Liabilities arising from a Single Transaction – effective from 1 January 2023.
- IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.
- IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract – effective from 1 January 2022.
- IFRS 3 – Reference to the Conceptual Framework – effective from 1 January 2022.
- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.

The following standard was issued and effective but had not yet been endorsed by the UK and as such has not been applied in these financial statements:

IFRS 16 (amended) – Covid-19 related Rent Concessions beyond 30 June 2021 – effective from 1 April 2021.

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Group. Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group. The Group will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom.

8.2 Basis of preparation continued

Updated guidance

In April 2021, the IFRS Interpretations Committee published its agenda decision that clarified the accounting for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. See page 179 in the Basis of Preparation for details of the Group's progress in implementing any changes required as a result of the agenda decision.

8.3 Related party transactions

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to the Group by investment (such as an associated company or joint venture). The Group's related parties are primarily its associate and its key management personnel. Amounts below are the total amount of transactions that have been entered into with any related parties in the year.

Houston Pellet Limited Partnership ("HPLP")

HPLP is owned 30% by the Drax Group and 70% by non-related third parties. The Drax Group purchases industrial biomass pellets from HPLP. The Drax Group manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Drax Group and the non-related third parties.

The transactions from the acquisition date to 31 December 2021 and the balances at the end of the period with the related party are summarised below:

			Transactions in the period			Balances as at 31 December 2021[1]	
		Drax Ownership	Revenue £m	Purchases £m	Management fee £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.2	10.3	–	1.4	0.6

(1) The amounts receivable and payable to the Company are unsecured and non-interest bearing

Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2021 £'000	2020 £'000
Salaries and short-term benefits	**6,755**	5,101
Aggregate amounts receivable under share-based incentive schemes	**2,826**	1,381
Company contributions to money purchase pension schemes	**635**	562
	10,216	7,044

Amounts included in the table above reflect the remuneration of the 17 (2020: 14) members of the Board and Executive Committee as described on page 130.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the Consolidated income statement, determined based on the fair value of the related awards at the date of grant (see note 6.2), as adjusted for non-market-related vesting conditions.

There were no other transactions with directors for the periods covered by these Consolidated financial statements.

Company financial statements

Company balance sheet

	Notes	As at 31 December 2021 £000	2020 £000
Non-current assets			
Investment in subsidiaries	5	**732,400**	724,911
Deferred tax asset		**1**	1
		732,401	724,912
Current assets			
Other debtors		**114**	94
Amounts due from other Group companies		**3,638**	5,585
Cash at bank and in hand		**3,939**	2,375
		7,691	8,054
Current liabilities			
Amounts due to other Group companies		**(4,248)**	(14,187)
Net current assets/(liabilities)		**3,443**	(6,133)
Net assets		**735,844**	718,779
Capital and reserves			
Called-up share capital	6	**47,716**	47,460
Share premium account		**432,191**	429,974
Treasury shares		**(50,440)**	(50,440)
Capital redemption reserve		**1,502**	1,502
Retained profits		**304,875**	290,283
Total equity shareholders' funds		**735,844**	718,779

The Company reported a profit for the financial year ended 31 December 2021 of £78.1 million (2020: £68.0 million).

These financial statements were approved by the Board of directors on 23 February 2022.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Company statement of changes in equity

	Share capital £000	Share premium £000	Treasury shares[1] £000	Capital redemption reserve £000	Retained profits £000	Total £000
At 1 January 2020	47,417	429,646	(50,440)	1,502	281,729	709,854
Share capital issued (note 6)	43	328	–	–	–	371
Profit and total comprehensive income for the year	–	–	–	–	68,008	68,008
Credited to equity for share-based payments	–	–	–	–	5,225	5,225
Equity dividends paid (note 8)	–	–	–	–	(64,679)	(64,679)
At 1 January 2021	**47,460**	**429,974**	**(50,440)**	**1,502**	**290,283**	**718,779**
Share capital issued (note 6)	256	2,217	–	–	–	2,473
Profit and total comprehensive income for the year	–	–	–	–	78,103	78,103
Credited to equity for share-based payments	–	–	–	–	7,388	7,388
Equity dividends paid (note 8)	–	–	–	–	(70,899)	(70,899)
At 31 December 2021	**47,716**	**432,191**	**(50,440)**	**1,502**	**304,875**	**735,844**

(1) The 13.8 million shares held in this reserve have no voting rights attached to them.

Notes to the Company financial statements

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The financial statements have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'.

The Company applied certain new and amended standards for the first time in 2021. The full list of standards adopted is set out in the Consolidated financial statements in note 8.2. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the Consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below and have been consistently applied to both years presented.

2. Summary of significant accounting policies

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained earnings.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

There were no critical accounting judgements made in preparation of the Company's financial statements.

Key sources of estimation uncertainty

There were no areas of significant estimation uncertainty within these accounts.

4. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 23 February 2022. The net profit attributable to the Company is £78.1 million (2020: £68.0 million).

The Company received dividend income from its subsidiary undertakings totalling £80.0 million in 2021 (2020: £70.0 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2021 was £23,774 (2020: £23,153).

5. Fixed asset investments

	Years ended 31 December	
	2021 £000	2020 £000
Carrying amount:		
At 1 January	**724,911**	719,654
Capital contribution	**7,489**	5,257
At 31 December	**732,400**	724,911

Investments in subsidiary undertakings

The capital contribution in 2021 and 2020 relates to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 6.2 to the Consolidated financial statements.

Full list of related undertakings

The table below lists the Company's direct and indirect related undertakings as at 31 December 2021:

Name and nature of business		Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	08190497	100
Abbott Debt Recovery Limited***	Non-trading company	England and Wales	Ordinary	05355799	100
Amite BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	5128116	100
Arkansas Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881707	100
Baton Rouge transit LLC*	Trading company, fuel supply	Delaware, USA	Common	5128759	100
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470	100
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298	100
Drax Biomass Acquisitions LLC*	Non-trading company	Delaware, USA	Common	7897331	100
Drax Biomass Inc.*	Wood pellet manufacturing	Delaware, USA	Common	5068290	100
Drax Biomass Holdings Limited	Holding company	England and Wales	Ordinary	08322715	100
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	5128115	100
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	5250168	100
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	5128118	100
Drax CCS Limited	Dormant	England and Wales	Ordinary	07885329	100
Drax Corporate Limited	Group-wide Corporate Services	England and Wales	Ordinary	05562058	100
Drax Finco plc	Finance company	England and Wales	Ordinary	10664639	100
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	05299523	100
Drax Netherlands B.V.~	Dormant	Netherlands	Ordinary	81848455	100
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	07821368	100
Drax Cruachan Expansion Limited (formerly Drax Generation (Selby) Limited)***	Non-trading company	England and Wales	Ordinary	06657393	100
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429	100
Drax Holdings Limited+	Holding company	Cayman Islands	Ordinary	92144	100
Drax Hydro Limited (formerly Domus Energy Limited)	Holding company	England and Wales	Ordinary	08654218	100
Drax Innovation Limited***	Development company	England and Wales	Ordinary	10664715	100
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	09824989	100
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	04883589	100
Drax Pumped Storage Limited (formerly Drax Corporate Developments Limited)	Trading company, power generation	England and Wales	Ordinary	06657336	100
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	10711130	100
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	06657454	100
Drax River Hydro Limited (formerly Damhead Creek II Limited)	Trading company, power generation	England and Wales	Ordinary	05956747	100
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	07821911	100
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	07821375	100
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	10664625	100
Farmoor Energy Limited***	Trading company, power retail	England and Wales	Ordinary	07111074	100
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428	100
Drax Energy Solutions Limited (formerly Haven Power Limited)	Trading company, power retail	England and Wales	Ordinary	05893966	100
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	07352734	100
Hirwaun Power Limited***	Power generation	England and Wales	Ordinary	08190283	100

5. Fixed asset investments continued

Name and nature of business		Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704	100
Jefferson Transit LLC*	Dormant	Delaware, USA	Common	6297176	100
LaSalle Bioenergy LLC*	Trading company, fuel supply	Delaware, USA	Common	6297174	100
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	08920458	100
Morehouse BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	5128117	100
Opus Energy (Corporate) Limited	Trading company, power retail	England and Wales	Ordinary	05199937	100
Opus Energy Limited	Trading company, power retail	England and Wales	Ordinary	04382246	100
Opus Energy Group Limited	Holding company, power retail	England and Wales	Ordinary	04409377	100
Opus Energy Marketing Limited***	Non-trading company	England and Wales	Ordinary	05030694	100
Opus Energy Renewables Limited	Trading company, power retail	England and Wales	Ordinary	07126582	100
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956	100
Opus Gas Supply Limited	Trading company, power retail	England and Wales	Ordinary	06874709	100
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319	100
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036	100
Progress Power Limited***	Power generation	England and Wales	Ordinary	08421833	100
SMW Limited^	Trading company, fuel supply	Scotland	Ordinary	SC165988	100
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	09735929	100
Tyler Bioenergy LLC*	Dormant	Delaware, USA	Common	6297175	100
Pinnacle Renewable Holdings (USA) Inc*	Holding company	Delaware, USA	Common	7043656	100
Alabama Pellets LLC*	Trading company, fuel supply	Delaware, USA	Common	7064679	90
Pinnacle Renewable Energy Inc**	Trading company, fuel supply	Richmond, Canada	Common	BC1300366	100
Lavington Pellet Inc.**	General partner	Richmond, Canada	Common	BC1022038	75
Lavington Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	LP0649393	75
Smithers Pellet Inc.**	General partner	Richmond, Canada	Common	BC1135983	70
Smithers Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	LP730047	70
Northern Pellet Inc.**	General partner	Richmond, Canada	Common	BC1213828	50
Northern Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Class A and Class C	LP781774	50
Houston Pellet Inc.**	General partner	Richmond, Canada	Common	BC0730544	33
Houston Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	428310-06	30

Registered Office

Incorporated in the UK
The registered address of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

***Incorporated in the USA**
The registered address for all subsidiaries incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

****Incorporated in Canada**
The registered address of all companies incorporated in Canada is 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2Z7.

^Incorporated in Scotland
The registered address of all subsidiaries incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

*****Exempt from audit**
These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2021 statutory accounts. These companies are all incorporated in England and Wales.

+Registered in Cayman Islands
The registered address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1 9007, Cayman Islands.

~Registered in Netherlands
The address of Drax Netherlands B.V incorporated in Netherlands. is Barbara Strozzilaan 101, Amsterdam, 1083HN.

Abbott Debt Recovery Limited and Opus Energy Marketing Limited have 30 December 2021 year ends. All other related undertakings have 31 December year ends.

The Group consolidates all of the related undertakings disclosed above apart from:

- Northern Pellet Inc. and Northern Pellet Limited Partnership which are proportionately consolidated
- Houston Pellet Inc. and Houston Pellet Limited Partnership which are equity accounted

6. Called-up share capital

	As at 31 December 2021 £000	2020 £000
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**99,950**	99,950
Issued and fully paid:		
2021: 413,068,027 (2020: 410,848,934) ordinary shares of 11 16/29 pence each	**47,716**	47,460

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December 2021 (number)	2020 (number)
At 1 January	**410,848,934**	410,475,731
Issued under employee share schemes	**2,219,093**	373,203
At 31 December	**413,068,027**	410,848,934

The Company has only one class of shares, which are ordinary shares of 11 16/29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

From January to December 2021 a total of 2,219,093 shares (2020: 373,203 shares) were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

The total cash received, split between nominal value and share premium, is shown in the Statement of changes in equity on page 277.

Full details of share options outstanding are included in note 6.2 to the Consolidated financial statements.

7. Distributable reserves

The Company considers its distributable reserves to be comprised of the profit and loss account, less credits in respect of share schemes, less treasury shares, with a total value of £198.7 million (2020: £191.5 million). Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current proposed final dividend of £45 million. Based on a total dividend for 2021 of £75 million, the Company has sufficient distributable reserves to pay two years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the Consolidated financial statements for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.1 to the Consolidated financial statements for additional information).

8. Dividends

	Years ended 31 December	
	2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2021 of 7.5 pence per share paid on 08 October 2021 (2020: 6.8 pence per share paid on 2 October 2020)	**29.9**	27.0
Final dividend for the year ended 31 December 2020 of 10.3 pence per share paid on 14 May 2021 (2019: 9.5 pence per share paid on 15 May 2020)	**41.0**	37.7
	70.9	64.7

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share (equivalent to approximately £45 million) payable on or before 13 May 2022. The final dividend has not been included as a liability as at 31 December 2021.

9. Contingent liabilities

The Company has provided unsecured guarantees to third-parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has provided guarantees over the liabilities of its subsidiaries that have taken the advantage of the audit exemption available in section 479A of the Companies Act 2006. The list of subsidiaries who have taken this exemption can be found in note 5.

The possibility of an outflow in relation to the above guarantees is considered remote.

The Company has granted a charge over the assets of certain subsidiaries, in respect of the Group's debt (detailed in note 4.2 to the Consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that is party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

Shareholder information

Key dates for 2022

At the date of publication of this document, the following are the proposed key dates in the 2022 financial calendar:

Annual General Meeting	27 April
Ordinary shares marked ex-dividend	28 April
Record date for entitlement to the final dividend	29 April
Payment of final dividend	13 May
Financial half year end	30 June
Announcement of half year results	26 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on our website at www.drax.com. During London Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2021, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2020	Low during the year (5 March 2021)	High during the year (30 December 2021)	Closing price on 31 December 2021
375.0 pence	358.4 pence	611.5 pence	605.0 pence

Share price chart

Note:
The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2021 was approximately £2,499 million (2020: £1,541 million).

Financial reports

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to Drax.Enq@drax.com.

Drax shareholder queries

The Company's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, (excluding Bank Holidays) or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.co.uk.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on our website at www.drax.com/investors/investor-resources/equity-investors-faq/.

Tax on dividends

The way that dividends are taxed changed in 2017. Below is a brief summary of the guidance provided by HMRC as it relates to the current tax year. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

There is a tax-free Dividend Allowance of £2,000 per annum in the 2021-2022 tax year (2020-2021: £2,000) This means that there is no tax to pay on the first £2,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs are unaffected and remain tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £2,001 but less than £10,000 are required to notify HMRC that they have this source of income.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £10,001 are required to file a self-assessment return with HMRC.

The above requirements apply to Share Incentive Plan participants receiving cash dividends on their plan shares.

Further information and updates on tax on dividends can be found on the Gov.UK website at www.gov.uk/tax-on-dividends

Beneficial owners and "information rights"

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Share frauds ("boiler room scams")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the "FCA").

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Alternative performance measures (APMs) glossary table

The measures described below are used throughout the Annual report and accounts and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's trading performance. These measures have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	The Group's Adjusted results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis. Adjusted results excludes exceptional items and certain remeasurements. Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting. The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance. Adjusted results are the metrics used in the calculation of adjusted basic earnings per share.	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 2.7).
Adjusted EBITDA	Operating profit*	Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess performance of the Group's operations.	Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA attributable to non-controlling interests is excluded. Adjusted EBITDA is stated from both continuing operations and discontinued operations.

Net debt	Borrowings less cash and cash equivalents	Net debt is the prominent metric used by debt rating agencies and the investor community to assess the strength of a company and its balance sheet. Net debt is used in the calculation of the Group's financial covenant requirements.	Total borrowings less cash and cash equivalents. Total borrowings include external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (see note 4.3) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations and trade and other payables. Net debt adjusted for the impact of hedging instruments which deducts the value of hedging instruments attributed to the Group's borrowings which are hedged from net debt.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's liquidity and the Group's ability to manage its current obligations. It shows the value of cash available to the group in a short period of time	Total cash and cash equivalents plus the value of the Group's undrawn RCF facility, loan facilities and Customers trade receivable factoring facility.
Debt service	Finance costs	This is a measure showing the cost of the Group's external borrowings (bonds and bank loans).	Interest payable and similar charges less any charges unrelated to external borrowings.
Net debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	The net debt to Adjusted EBITDA ratio is a debt ratio that gives an indication of how many years it would take the group to pay back its debt if net debt and EBITDA are held constant. The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.	Net debt divided by Adjusted EBITDA. Expressed as a ratio to 1.
Cost of production	Cost of sales	A key metric showing the cost of produced biomass. This has been part of the Group's strategy to reduce biomass costs.	Cost of sales attributable to biomass production divided by tonnes of biomass produced. Expressed as a cost per tonne produced.
Capital expenditure	Plant, Property and Equipment (PPE) additions and Intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	Plant, Property and Equipment (PPE) additions plus Intangible asset additions less any additions to decommissioning assets.

* Operating profit is presented on the Group income statement; however, it is not defined per IFRS. It is a generally accepted profit measure.

Glossary

Adjusted EBITDA
Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is typically stated as the combined value from both continuing and discontinued operations.

Adjusted results
Financial performance measures prefixed with "Adjusted" are stated after adjusting for material, one-off exceptional items (such as asset obsolescence charges, acquisition and restructuring costs or debt restructuring costs), and certain remeasurements on derivative contracts.

Ancillary services
Services provided to national grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black Start contracts. They are described in Connection Condition 8 of the Grid Code.

Availability
Average percentage of time the units were available for generation.

BECCS
Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

BEIS
The Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change.

Black start
Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

Biomass
Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. Drax uses woody biomass from low grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power station.

Capacity market
Part of the Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

Carbon capture and storage (CCS)
The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

Carbon price support
A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to Drax Power station.

CCC
The UK's Climate Change Committee.

Contracts for difference (CfD)
A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the "strike price". Generators will receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

Combined Cycle Gas Turbines (CCGT)
A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

ESG
Environmental, Social and Governance.

EU ETS
The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced outage
Any reduction in plant availability, excluding planned outages.

Frequency response
The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz.

Grid charges
Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

Headroom and footroom
Positive "reserve" (see below) may be termed headroom and negative reserve as footroom.

IFRS
International Financial Reporting Standards.

Inertia
The stored energy in the large rotating mass of a generator, which assists in maintaining system stability. Wind and solar power sources have no inertia.

Lost time incident rate (LTIR)
The frequency rate is calculated on the following basis: (fatalities and lost time injuries)/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

Net debt
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

Net debt to Adjusted EBITDA ratio
The value of Net debt divided by Adjusted EBITDA (both as defined above), expressed as the number of times the value of Net debt exceeds the value of Adjusted EBITDA. The Group has a long-term target of around 2.0x Net debt to Adjusted EBITDA.

NGO
Non-governmental organisation.

Open Cycle Gas Turbine (OCGT)
A free-standing gas turbine, using compressed air, to generate electricity.

Planned outage
A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

Rebasing
Rebasing is when the Group releases cash from an open derivative contract that is in a mark-to-market asset position by modifying the rate per the contract. A cash payment equivalent to the reduction in the mark-to-market asset is received by the Group from the counterparty, less any applicable fees.

Reserve
Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

Response
Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

ROCs
A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

Summer
The calendar months April to September.

System operator
National Grid Electricity Transmission. Responsible for the co-ordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

TCFD
Task Force on Climate-related Financial Disclosures.

Total recordable incident rate (TRIR)
The frequency rate is calculated on the following basis: (fatalities, lost time injuries + worse than first aid injuries)/hours worked x 100,000.

Total results
Financial performance measures prefixed with "Total" are calculated in accordance with IFRS.

UK ETS
The UK Emissions Trading System is a mechanism introduced across the UK to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

Voltage control/reactive power
Maintenance of voltage within specified limits in order to "push" power around the system to maintain safety and stability.

Winter
The calendar months October to March.

Company information

Drax Group plc
Registered office and trading address
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
[redacted]

Registration details
Registered in England and Wales
Company Number: 5562053

Group Company Secretary
Brett Gladden

Enquiry e-mail address
[redacted]

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Design and production

CONRAN DESIGN GROUP

Cautionary note regarding forward looking statements

This annual report may contain certain statements, expectations, statistics, projections and other information that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

www.drax.com

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APPENDIX C – ACCOUNTS (2022) – FUNDING STATEMENT

drax

Delivering dispatchable, renewable power

Drax Group plc Annual report and accounts 2022

Financial/ESG highlights

Adjusted revenue[1]

£8,159m
(2021: £5,174m)

Total revenue

£7,775m
(2021: £5,088m)

Percentage of total UK renewable electricity generated

11%
(2021: 12%)

Dividend per share

21.0 pence
(2021: 18.8 pence)

Earnings per share

21.3 pence
(2021: 20.0 pence)

Net debt[2]

£1,206m
(2021: £1,108m)

Adjusted EBITDA from continuing and discontinued operations[1]

£731m
(2021: £398m)

Total operating profit[1]

£146m
(2021: £197m)

Total recordable incident rate

0.44
(2021: 0.22)

Employee engagement score

79%
(2021: 79%)

Group carbon intensity

49 tCO_2e/GWh
(2021: 78 tCO_2e/GWh)

Wood pellets produced

3.9Mt
(2021: 3.1Mt)

Group carbon emissions Scope 1 and 2

669 $ktCO_2e$
(2021: 1,255 $ktCO_2e$)

Group carbon emissions Scope 3

3,123 $ktCO_2e$
(2021: 3,121 $ktCO_2e$)

(1) We calculate Adjusted financial performance measures, which are Drax specific and exclude income statement volatility from derivative financial instruments and the impact of exceptional items, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully on page 179, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 205. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). References to financial performance measures throughout this Annual Report and Accounts refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 5.4 to the Consolidated financial statements on page 240.

(2) We define Net debt as borrowings, including the impact of hedging instruments, less cash and cash equivalents. Net debt is more fully described on page 180. A reconciliation of Net debt is provided on page 207. Borrowings is defined as per the Group's Consolidated balance sheet on page 183 and does not include lease liabilities, pension obligations or other financial liabilities.

Played a critical role providing stability and security to the UK power system

Read the CEO's Review page 12

Adding pellet production capacity

Read the CEO's Review page 12

Developing opportunities for bioenergy with carbon capture and storage (BECCS)

Read the CEO's Review page 12

UK's largest source of renewable electricity by output

Read the CEO's Review page 12

Sustainability is integral to our purpose and success.

Read Sustainable Development on page 36

Further reading:

Links within this report | External sources | Supporting data, statistics and insights

Delivering dispatchable, renewable power

An electricity generator produces **Dispatchable Power** when the power can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be Dispatchable Power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient Dispatchable Power to operate and remain safe. **Renewable power** is derived from natural sources that are replenished at a higher rate than they are consumed.

Our purpose is to enable a zero carbon, lower cost energy future

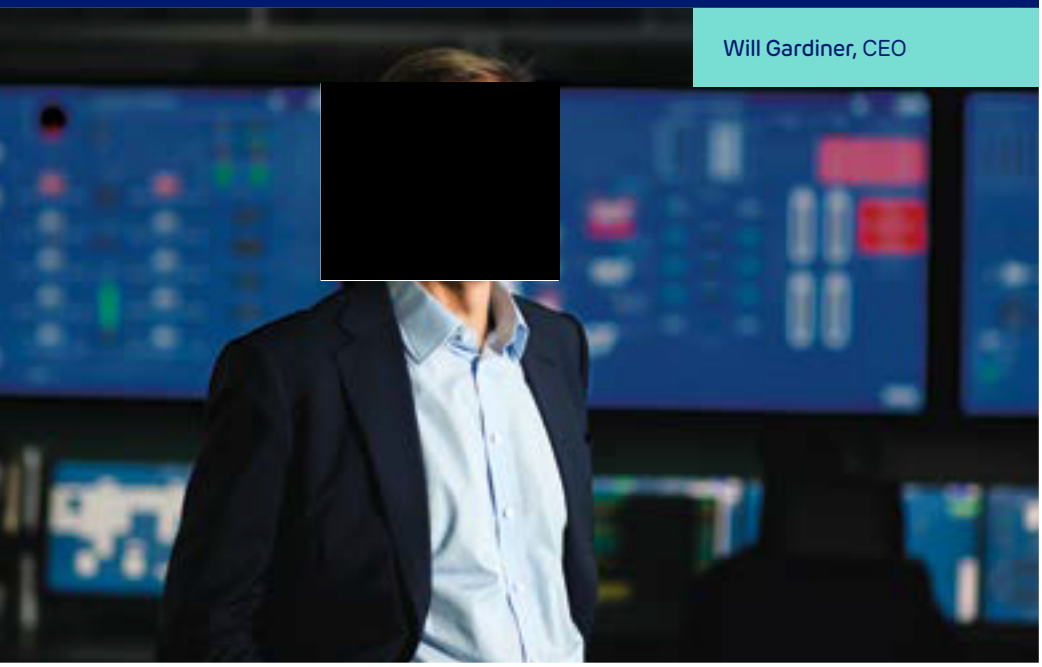
If we are to avert a climate catastrophe, more urgent action must be taken to get to net zero. As an integral part of the energy sector, I believe Drax has a pivotal role to play in driving the transition to renewable electricity by enabling a more flexible energy system which can deliver secure, renewable power when the sun doesn't shine and the wind doesn't blow and, in 2022, Drax continued to play an important role in supporting the security of energy supply in the UK.

Carbon dioxide removal technology is widely regarded as being essential to global efforts to reach net zero. We have ambitions to lead the world with our bioenergy with carbon capture and storage (BECCS) technology, which can generate secure, renewable electricity and permanently remove CO_2 from the atmosphere.

Sustainable biomass is recognised as having the potential to play an important role in tackling the climate crisis and displacing fossil fuels. As the world's leading sustainable biomass generation, production, and supply business, Drax is committed to ensuring the biomass we use delivers positive outcomes for the forests we source from and the people living in and around them.

I passionately believe that a thriving biomass industry, which sources the right biomass in a sustainable way, contributes to healthy forests: whether by providing an outlet for sawmill residuals or by using low quality wood that is unsuitable for use in a sawmill. We work closely with rural communities, providing and supporting jobs for people from different backgrounds in Canada and the southeast of the US.

Our commitment to sustainability sits at the heart of everything we do, helping to ensure we have a positive impact on the climate, nature, and people. In this report we'll explain how we are delivering our purpose to enable a zero carbon, lower cost energy future.



Will Gardiner, CEO

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Our strategic objectives are aligned to net zero targets:

- To be a global leader in sustainable biomass pellets
- To be a global leader in carbon removals
- To be a UK leader in dispatchable, renewable generation

Read more in our business model on page 8

Our role in the transition to net zero

To address the climate crisis and limit global warming to 1.5°C, we need more renewable energy, and more flexible energy systems to make the best use of wind and solar.

How Drax is enabling the transition to net zero:

How do we reduce carbon in a sustainable way?

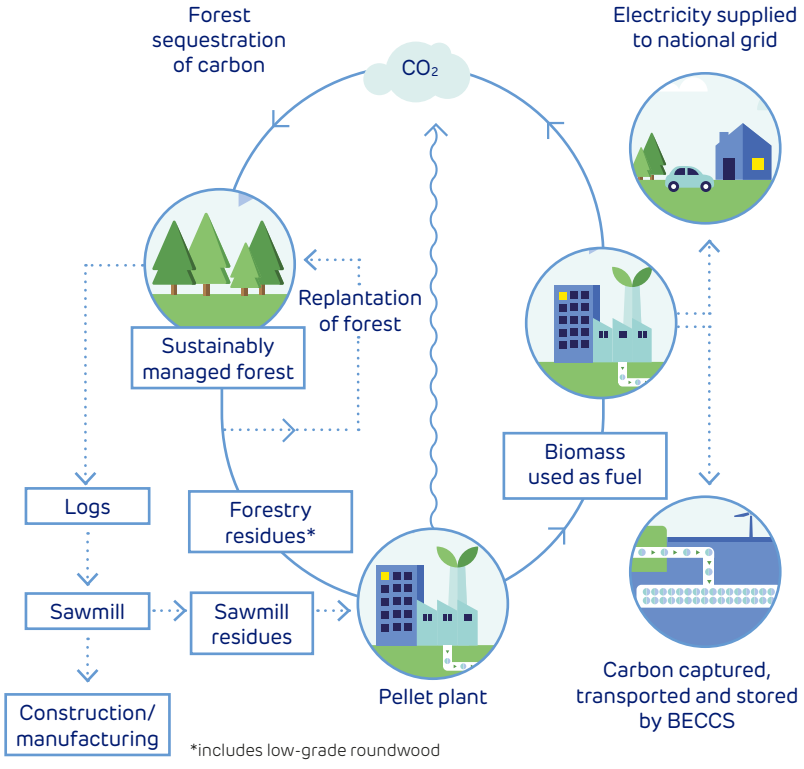
By being a global leader in sustainable biomass pellets

Sustainably sourced biomass is a renewable, low carbon source of energy and a key element in the road to net zero. This is at the heart of our purpose. Sustainable biomass can play an important role in supporting forest health. Well-managed forests are effective at absorbing and storing carbon dioxide (CO_2) from the atmosphere.

We are committed to sourcing sustainable biomass that achieves both decarbonisation and positive forest outcomes. Drax forms part of a wider forest industry where forest management and felling is used primarily for producing material for construction and manufacturing. The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood – material of a lower grade which is unsuitable for use in a sawmill. Using these materials can also help prevent the spread of fire, pests, and disease by reducing stand density to healthier levels and removing deadwood which can attract insects and pathogens.

By diligent sourcing of these materials to make pellets, our activity can help forest owners, and the larger forest industry, make the best use of forests, achieving both decarbonisation and positive forest outcomes.

Find out more about sustainably sourced biomass on page 40



"Without biomass, we're not going to make it. We need biomass in the mix, but the right biomass in the mix."

Source: Frans Timmermans, the executive vice-president of the European Commission in charge of the European Green Deal, May 2021

Our ambition:

Our ambition is to become carbon negative by 2030. This means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.

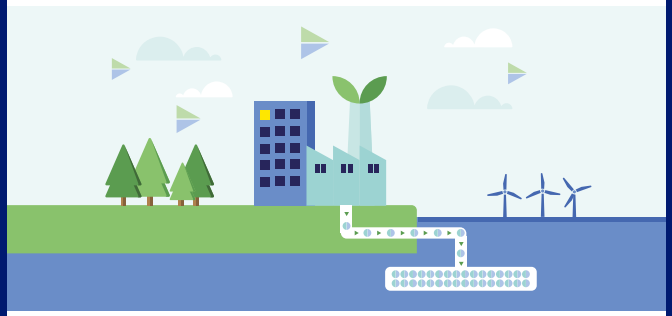
Read more in our business model on page 8

However, wind and solar are intermittent and when the wind isn't blowing and the sun isn't shining, we need to look to other sources of power.

How can we permanently remove carbon from the atmosphere?

By being a global leader in carbon removals

Alongside carbon emission reductions, carbon removal technologies are needed to remove carbon from the atmosphere. With an effective carbon removals policy and the right investment framework from the UK Government, we could deploy bioenergy with carbon capture and storage (BECCS) on two of our existing biomass generating units in the UK to remove 8Mt of CO_2 each year by 2030. And we are targeting 12Mt of carbon removals globally by 2030.



Read more about BECCS in the CEO Review on page 12

Up to 9.5bn tonnes of carbon removals, via BECCS, could be required annually by 2050 to reach global net zero targets.

Source: Intergovernmental Panel on Climate Change (IPCC), April 2022

How do we keep the lights on during the transition to more intermittent renewable energy?

By being a UK leader in dispatchable, renewable power

Moving away from fossil fuels means building an electricity system that is primarily based on renewables. Supporting wind and solar, by providing electricity at times of low sunlight or wind levels, will require flexible sources of generation, such as biomass. Our pumped storage and run-of-river hydro stations also help to reinforce the UK's renewable energy mix.

The dispatchable generating assets at Drax remain critical to providing UK power system stability and security as the war in Ukraine continues to put global energy markets under considerable pressure. Over the 2022-23 winter, our assets generated renewable power when the country needed it most. This has helped the UK to provide energy to consumers and businesses while maintaining its target of net zero by 2050.

Read about our planned expansion of Cruachan power station on page 17

Ensuring the electricity system is reliable means intermittent renewables need to be complemented by technologies which can provide dispatchable power, such as bioenergy.

Source: UK Government, Biomass Policy Statement, November 2021

Market context

Our role in delivering a secure and renewable energy system, tackling climate change, sustaining healthy forests and habitats, and promoting socio-economic growth

2022 was a challenging year for the global community. The after-effects of Covid-19 and the continuing effect of Russia's invasion of Ukraine combined to have an impact on the social, economic, and political fabric of most countries around the world. Developed economies experienced rising demand, high energy costs, and supply chain issues, driving inflation and resulting in a cost of living crisis for many people.

In the UK, sterling's weakness and 12 months of unprecedented political and economic challenge compounded these issues. Despite this, governments in the UK, North America, mainland Europe and Asia continue to remain focused on delivering a decarbonisation agenda, both domestically and globally. Together, they aim to reduce the energy system's reliance on fossil fuels and help tackle climate change.

Bolstering energy security

In 2022, Drax generated 11% of the UK's renewable electricity – more than any other generator. This electricity comes from Drax Power Station – fuelled by sustainable biomass – in North Yorkshire and our pumped storage and hydro sites in Scotland.

We continue to play a critical role in ensuring the UK's security of energy supply, whilst also supporting thousands of jobs across the UK, both directly and through our supply chain. Drax helps to keep the lights on when the wind doesn't blow and the sun doesn't shine. Unlike wind or solar, our sites provide secure, dispatchable, renewable power whatever the weather – supporting grid stability.

Now more than ever, the UK needs to invest in domestic security of supply while also decarbonising the grid and meeting climate targets. There is only one technology that can generate reliable and renewable electricity while removing carbon dioxide from the earth's atmosphere: bioenergy with carbon capture and storage (BECCS).

The project is well-developed, the technology is proven within the industry, and an investment decision could be taken in 2024, subject to the right investment framework, with a first BECCS unit operational in 2027 and a second in 2030. BECCS could remove millions of tonnes of carbon from the atmosphere and create local, national, and global opportunities.

Scaling up BECCS could help get the UK to net zero faster and kickstart a new green economy in the Humber, supporting thousands of jobs and creating opportunities across the North of England. And it could allow the UK to lead the world in carbon removals.

Rising global acceptance of BECCS

The Intergovernmental Panel on Climate Change (IPCC) is the world's leading authority on climate science. It states that carbon dioxide removal (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5ºC.

The illustrative mitigation pathways assessed in the IPCC's latest report use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero targets. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

In 2022, progress was made in global policies relating to carbon removal technologies. Despite the significant political uncertainty in the UK, the Government published several consultations and bills that demonstrated support for BECCS. These included publishing the Power BECCS Business Model Consultation, the GGR Business Model Consultation and the Energy Bill. Zero Carbon Humber, of which Drax is a member, supports the ambitions of the East Coast Cluster consortium which was chosen as a priority cluster. In addition, Drax awaits the outcome of its bid into the "Track 1" Power BECCS submission process and publication of the Government's Biomass Strategy.

11%
In 2022 Drax generated 11% of the UK's renewable electricity

Over a trillion dollars

The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

The international environment for BECCS continued to develop favourably in 2022. A growing number of governments and key stakeholders around the world recognise that deploying BECCS at scale will be critical to delivering on climate targets. At COP27, the IPCC released a synthesis of long-term low emission development strategies of 53 countries. Over a quarter of these strategies mention BECCS as part of their plans to limit global temperatures. As a result, we have seen significant developments to support BECCS deployment. In the US, the landmark climate bill – known as the Inflation Reduction Act – includes an uplift in funding and tax credits for carbon removal technologies.

The US Department of Energy included BECCS as an eligible technology in various funding schemes. Likewise, a National Renewable Energy Laboratory report states, by 2035, the US could need around 100Mt of carbon removals from BECCS to offset remaining carbon emissions in the power sector. State-level developments also support the deployment of BECCS. California's net zero strategy, for example, identifies carbon removal technologies as an important tool to deliver its climate targets.

The California Air Resources Board (CARB), which is responsible for climate policy, has stated its intention to deploy 75Mt of carbon removals, including BECCS, by 2045.

Canada launched an investment tax credit for carbon capture technologies to support carbon capture and storage (CCS) development. The country has set a target to capture 15Mt of carbon removals a year by 2030 and the government is working on a clean energy standard. This cites carbon capture and storage as being central to achieving net zero due to its potential to deliver carbon removals and to enable further reductions attributable to the electricity sector.

Meanwhile, the European Commission adopted a proposal for an EU-wide framework to reliably certify high-quality carbon removals. The proposal includes BECCS and classifies it as a permanent storage solution. The EU Energy Commissioner will also be working on a strategic vision for CCS in 2023, and EU Member States continue developing programmes to enable BECCS deployment. Several governments have announced research and development funding schemes and grants to support Front-End Engineering Design.

We expect the growing momentum for BECCS to continue in 2023. This is likely to include the development of detailed roadmaps to deliver net zero targets, and international negotiations on carbon markets will progress in the run up to COP28.

Delivering a future positive outcome

To tackle the climate crisis, the world needs secure, renewable energy – and to remove carbon from the atmosphere.

The IPCC and a number of governments agree that CDR methods, including BECCS, are necessary elements in achieving this goal. Drax is the world's leading sustainable biomass generation, production, and supply business, and is now developing options for BECCS in the UK and North America. Our Responsible Sourcing Policy is informed by science, and the biomass we use to generate electricity is assessed against sustainable forest management principles.

The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood, material of a lower grade which is unsuitable for use in a sawmill. Strong markets for lower quality material can help support good forest management in the US and Canada, and we take our wood from responsibly managed working forests. As the demand for bioenergy and BECCS increases, we are exploring opportunities to generate bioenergy from other sustainable fibre sources.

Bioenergy and BECCS can remove carbon from the atmosphere while sustaining healthy forests and habitats. In turn, this can protect and create jobs – particularly in some of those communities most at risk of decline in the transition to net zero.

BECCS

Over a quarter of IPCC strategies mention BECCS as part of their plans to limit global temperatures.

"Our commitment to sustainability sits at the heart of everything we do, helping to ensure we have a positive impact on the climate, nature, and people."

Read more about our commitment to sustainability on page 36

At a glance

Drax is the second largest producer of sustainable biomass globally, and the UK's largest source of renewable power by output. We are progressing options for bioenergy with carbon capture and storage (BECCS).

Our integrated flexible and renewable value chain...

Pellet Production

The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood, material of a lower grade which is unsuitable for use in a sawmill. They provide a sustainable, low carbon fuel source that can be safely and efficiently delivered through our global supply chain.

The forests we source our biomass from are managed in accordance with standards designed to support the health and growth of these forests over the long term. Based in the US south and in Western Canada, we have 18 operational and development sites with nameplate capacity of around 5Mt once expansions are complete.

We have US$4.1 billion of long-term contracted sales to third parties across Asia and Europe. Our Generation business also uses pellets sourced from our Pellet Production sites to make flexible, renewable electricity for the UK.

Employees
733

Adjusted EBITDA
£134m
(2021: £86m)

Pellets produced
3.9Mt
(2021: 3.1Mt)

Production cost
$152/t
(2021: $143/t)

Generation

Our portfolio of flexible, low-carbon and renewable UK power assets – biomass, hydro, and pumped storage generation – provides dispatchable, renewable power and system support services to the electricity grid.

Our dispatchable power – which can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand – has a vital role to play in enabling the transition to more renewable energy and a more flexible energy system: generating renewable electricity when the sun doesn't shine and the wind doesn't blow.

We are the UK's largest source of renewable power by output, and Drax Power Station is the UK's largest single source of renewable electricity by output. Our portfolio provides long-term earnings stability and opportunities to optimise returns from the transition to a low-carbon economy.

We are developing options for BECCS at Drax Power Station in the UK and exploring options for global BECCS.

Employees
666

Adjusted EBITDA
£696m
(2021: £372m)

Percentage of total UK renewable electricity generated
11%
(2021: 12%)

Customers

Our Customers business is principally focused on renewable electricity sales to industrial and corporate customers in the UK.

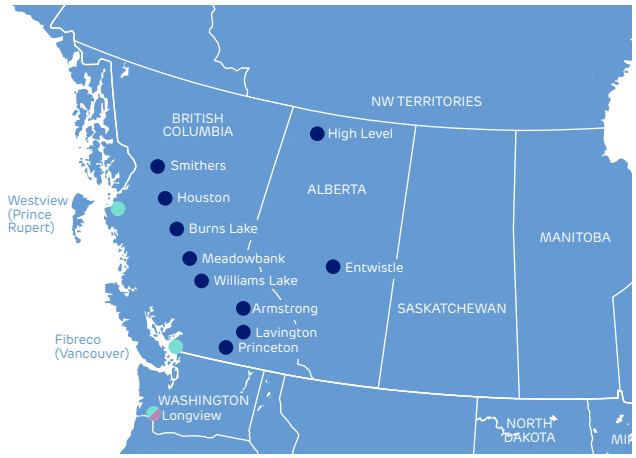
The business also offers non-generation system support and energy management services, such as the provision of decarbonisation services, including vehicle fleet electrification. It also provides a route to market for many smaller embedded renewable generators.

Employees
887

Adjusted EBITDA
£26m
(2021: £6m)

Where we operate

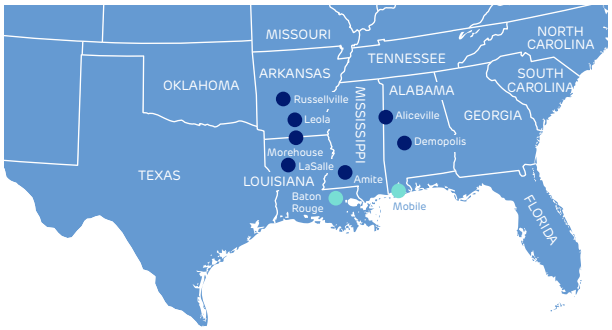
Canada



- Ports
- Developments
- Operational plants

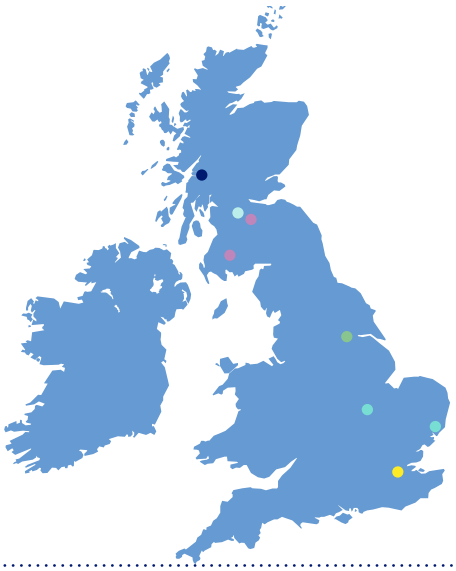
18 operational and development sites, with nameplate capacity of around 5Mt once expansions are complete.

US



Five deep water ports, accessing Asian and European markets.

UK



- Pumped storage generation
- Biomass generation
- Hydro generation
- Biomass from waste
- B2B renewables supply and services
- Corporate offices

Dispatchable, renewable power generation – biomass, hydro, and pumped storage – and supply to British industry.

Japan

Development of carbon removals technology – BECCS.

Business model

A leading UK-based renewable energy company with global growth opportunities aligned to net zero targets

Our business model and strategy address key trends in global energy:

- The increasing demand for electricity and the need for renewable energy
- The need to decarbonise and the importance of carbon removals
- The need for dispatchable generation to enable increased reliance on intermittent renewables

Our strategic pillars:

To be a global leader in sustainable biomass pellets

To be a global leader in carbon removals

To be a UK leader in dispatchable, renewable generation

Our integrated flexible and renewable value chain...

Sustainable biomass pellets

Drax believes that the global market for sustainable biomass will grow significantly, creating opportunities for sales to third parties, BECCS, generation, and other long-term uses of biomass. Delivery of these opportunities will be supported by the expansion of the Group's biomass pellet production capacity.

The Group has 18 operational and development sites with nameplate capacity of around 4.8Mt p.a. which will increase once expansions are complete. Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the addition of around 3Mt p.a. of new biomass pellet production capacity.

Underpinned by this expanded production capacity, Drax aims to double sales of biomass to third parties to 4Mt p.a. by 2030, developing its market presence in Asia and Europe.

c.5Mt
Pellet production capacity
(2021: c.5Mt)

$152/t
Production costs
(2021: $143/t)

Carbon removals

Post-combustion removal of carbon from the atmosphere (such as BECCS) and afforestation (planting trees in new areas) are recognised as important sources of carbon removals – removing CO_2 from the atmosphere[1].

Building on its biomass expertise, Drax is developing options for BECCS.

Subject to the right regulatory environment, and support from the UK Government, Drax has plans to transform Drax Power Station into one of the world's leading carbon capture projects using BECCS to permanently remove 8Mt of CO_2 emissions from the atmosphere each year by 2030. The project is well developed, and an investment decision could be taken by Drax in 2024, with the first BECCS unit operational in 2027 and a second in 2030, subject to the right investment framework.

The Group is also developing options to complement this innovation with a target to deliver 4Mt of negative CO_2 emissions p.a. from new-build BECCS outside of the UK by 2030.

2030
Carbon negative by 2030

12Mt
Aiming for 12Mt of carbon removals globally by 2030

Dispatchable, renewable generation

Drax Power Station is the UK's largest source of renewable power by output and the UK's largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

Drax is also developing an option for the expansion of our pumped storage power station at Cruachan, which could take a final investment decision in 2024 and be operational by 2030, providing an additional 600MW of dispatchable long-duration storage to the power system.

Capacity:

2.6GW
biomass

0.6GW
pumped storage and hydro

Compelling investment case

- Geographically diversified biomass supply chain with opportunities for growth, innovation and cost reduction
- Developing options for large-scale carbon removals technology, both in the UK and globally
- UK's largest source of renewable power by output
- A leading provider of secure, dispatchable, UK generation, offering the flexibility that other renewables (such as wind and solar) cannot
- All underpinned by a culture of safety, sustainability, and a focus on cost reduction

(1) The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the carbon removals required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050, identifying a requirement of between 0.5 and 9.5 billion tonnes of carbon dioxide removal globally

Creating value for stakeholders

We engage with a broad range of stakeholders, including: shareholders and investors; our workforce; local communities; governments, network operators and regulators; NGOs; customers; and suppliers. You can read more about our stakeholders, together with our section 172 Statement, on pages 26 to 33.

- Global growth opportunities aligned to net zero targets
- Strong financial position, delivering high quality earnings; a sustainable and growing dividend; and a strong balance sheet
- Ambition to lead the world in carbon removal technologies
- c. 99% reduction in generation Scope 1 and 2 carbon emissions since 2012
- Ambition to be carbon negative by 2030
- Supporting the transition to net zero
- Sustainable development framework
- Investment in our communities in UK, US and Canada
- Commitment to safe and sustainable operations
- Commitment to diversity and inclusion, creating a safe and engaging culture where colleagues feel valued and respected

Drax contributes particularly to the following Sustainable Development Goals:

Chair's statement

An important role to play

Philip Cox CBE, Chair

Through 2022, Drax continued to make progress towards our purpose (to enable a zero carbon, lower cost energy future) and our aim (to be a carbon negative company by 2030). At the same time, we have supported energy security in the UK.

Our values:

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

Through 2022, Drax continued to make progress towards our purpose – to enable a zero carbon lower cost energy future – and our aim: to be a carbon negative company by 2030. At the same time, we have supported energy security in the UK.

The Group's three strategic objectives – to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power – are aligned with a number of global energy policies. Such policies increasingly recognise the important role that sustainable biomass and carbon removals can play in the fight against climate change.

Since 2012, we have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%, principally reflecting our long-term investment in sustainable biomass. And we have continued to progress our ambition to become a carbon negative company by developing opportunities for bioenergy with carbon capture and storage (BECCS) in the UK and North America.

While progressing our strategy, we also play an important role in supporting UK energy security. Using our biomass, pumped storage, and hydro assets, we generate large amounts of reliable, renewable electricity and provide important system support services to the UK power system. This reduces the UK's reliance on expensive fossil fuels like gas and complements the greater use of intermittent renewables such as wind.

In the future, biomass could offer a route to carbon removal using BECCS. But, it must be the right biomass. The Group is committed to this principle, in order to deliver positive outcomes for the climate, nature, and people.

On a personal note, this will be my final year as Chair since I plan to step down by 31 December 2023. By then, I will have served as a director for nine years, having joined the Board in January 2015. In that time, I have seen the continued transition of Drax from coal to biomass generation, the growth of our Pellet Production business and supply chain, the development of opportunities for BECCS, and the growth of the Group internationally. These actions have all been undertaken alongside our continuing commitment to deliver our purpose and contribute to the fight against climate change.

Operations

In North America, our Pellet Production business has continued to support efforts to optimise biomass power generation and safeguard security of supply in the UK. At the same time, the Pellet Production business has added over 500kt of extra production capacity.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of flexible, dispatchable, renewable electricity. In 2022, the Group was once again the UK's largest source of renewable electricity by output, providing 11% of the total from its biomass, pumped storage, and hydro generation assets. At the UK Government's request, we agreed to make available our two coal-fired units for the winter of 2022-2023, if required, as a response to the European energy crisis following Russia's invasion of Ukraine.

Our Customers business, which supplies electricity to businesses and other organisations in the UK, has continued its recovery from the impact of Covid-19.

Results and dividend

Adjusted EBITDA in 2022 was £731 million. This was significantly higher than 2021 (£398 million), reflecting a strong performance across the Group.

Our investment case	Further reading
Long-term global growth opportunities aligned with global net zero strategies	Read CEO Report on page 12
Differentiated position with operations across the biomass value chain	Read CEO Report on page 12
Positive impact on the climate, nature, and people	Read Sustainable Development on page 36
High-quality, strategic asset base	Read CEO Report on page 12
Strong operational and financial performance	Read Financial Review on page 20
Sustainable and growing dividend	Read Financial Review on page 20

Technological changes mean that biomass usage can now go beyond carbon-neutral and deliver negative emissions by combining it with carbon capture and storage (BECCS)

Source: UK Government Net Zero Strategy: Build Back Greener Publication. October 2021

The balance sheet also remains strong, with Net debt at £1,206 million significantly below our target ratio of 2.0 times Net debt to Adjusted EBITDA.

At the 2022 Half Year Results, we confirmed an interim dividend of £34 million (8.4 pence per share). The Board proposes to pay a final dividend in respect of 2022 of £50 million, equivalent to 12.6 pence per share. This will make the full year 2022 dividend £84 million (21.0 pence per share) (2021: £75 million, 18.8 pence per share). This represents an 11.7% increase on 2021. It is also consistent with our policy to pay a dividend that is sustainable and expected to rise as the strategy delivers stable earnings, and cash flows and opportunities for growth.

The Group has a clear capital allocation policy. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows from contracted income, the less predictable cash flows from the Group's commodity-linked revenue streams, and future investment opportunities. This includes new biomass pellet plants, the development of options for BECCS in the UK and North America, and the expansion of our pumped storage power station at Cruachan. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Safety and sustainability

The safety, health and wellbeing of our colleagues and contractors, together with our environmental impact, remain priorities for the Group and the Board. We believe that safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance. These fundamentally underpin the continued success of the Group. Safety and sustainability underpin our operational philosophy. We continue to work across the Group to identify, implement, and maintain high standards supported by a positive safety culture.

Sustainability is at the heart of the Group, and we believe that achieving a positive economic, social, and environmental impact helps us create sustainable long-term value. Throughout 2022, we have continued our work as a Taskforce on Climate-Related Financial Disclosures (TCFD) supporter. For example, we have submitted science-based targets and identified opportunities for further reductions of carbon emissions in our supply chain.

Delivering positive outcomes for climate, nature, and people are at the core of the Group's business model, and ensuring that Drax only uses biomass which is sourced sustainably in the generation of electricity is central to this ambition.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe, is an important part of both UK and international renewable energy policies. The Group sources its biomass from well-established forestry markets, primarily in the US and Canada.

We support responsible forestry practices by providing incremental, secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill. These materials are principally sawdust and sawmill residues, bark, branches, low-grade roundwood, and woody material from forest management activities. In addition, the markets we source from are subject to national and regional regulation. We supplement this regulation through our own biomass Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program in respect of woody biomass used at Drax Power Station.

People and values

The Board remains committed to building a supportive, diverse, and inclusive working environment where all colleagues feel they belong. We continue to engage with, and listen to, our colleagues. Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums during 2022, and we will continue to do so in 2023. These meetings provide valuable ongoing insights and feedback for the Board.

We monitor and challenge management on the steps being taken to address diversity, and the Board receives regular updates at Board meetings on the work being done. In recent years, we have made progress on diversity, particularly in senior roles. By the end of 2022, our female representation at Board level was 44% and 40% for the Executive Committee.

Summary

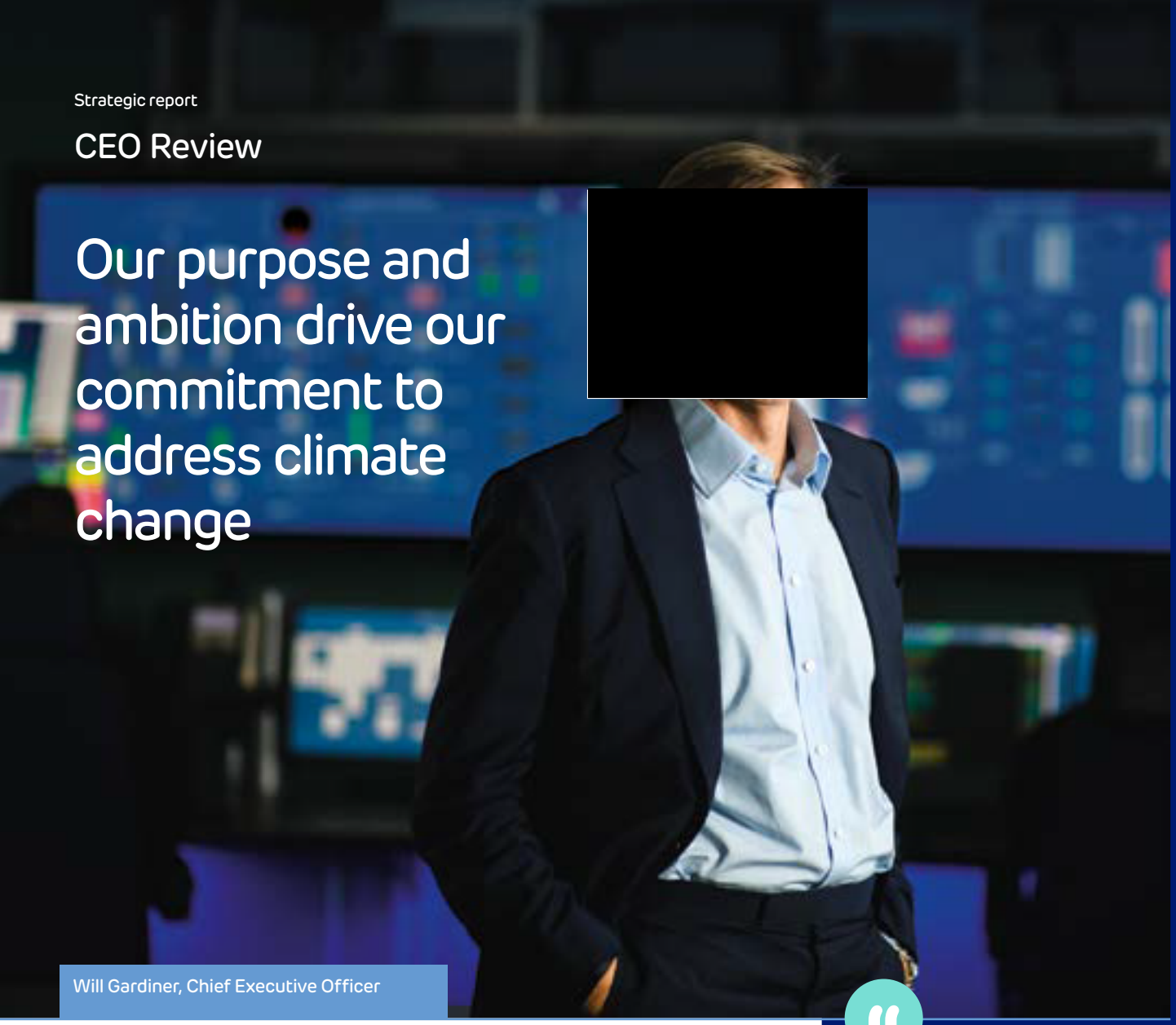
In 2022, we used our generation assets and our supply chain to provide large volume, reliable and flexible power; we enhanced security of supply in the UK; and we continued to deliver strong financial performance with a sustainable and growing dividend.

At the same time, we have made good progress with our strategic objectives. Our biomass growth strategy is clear and underpins our plans for biomass sales, opportunities for BECCS, and renewable power generation. Through these complementary opportunities, we believe we can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and become a carbon negative company.

Philip Cox, CBE
Chair

CEO Review

Our purpose and ambition drive our commitment to address climate change



Will Gardiner, Chief Executive Officer

2022 saw a significant increase in gas prices, leading to concerns about energy costs and security in the UK and beyond. At Drax we have continued to play our part. We are the UK's largest source of renewable power by output, a leading source of reliable and flexible generation, and our ambition is to become a carbon negative company by 2030.

Our portfolio generated over 4% of the UK's electricity between October 2021 and October 2022 (the most recent period for which data is available). We also generated 11% of the UK's renewable electricity over the same period, making Drax the largest renewable generator by output. In addition, our assets produced on average 19% of the UK's renewables at times of peak demand across the year and up to 70% on certain days. This underlines the important role that Drax plays in security of supply in the UK.

At the same time, we remain focused on our purpose – to enable a zero carbon, lower cost energy future – and our ambition to become a carbon negative company by 2030.

This purpose and ambition drive our commitment to address climate change. Since 2012, the Group's actions have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%.

The world must act now to address the climate crisis and limit global warming to 1.5°C above pre-industrial levels. We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, carbon removal technologies, like BECCS, to remove carbon from the atmosphere.

We believe that Drax is a world leader in sustainable biomass and that BECCS can become a world leading, UK-led, exportable solution for large-scale carbon removals, subject to the right regulatory and investment framework. Reflecting this belief, we are continuing to develop an option for our UK BECCS project and opportunities to invest in BECCS in North America. We believe this could be the world's leading market for these types of technologies.

> We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, carbon removal technologies, like BECCS, to remove carbon from the atmosphere

Read more about our sustainability activities on pages 36 to 74

These benefits will only be possible with the right biomass – biomass that is sourced sustainably. At Drax we are committed to using the right biomass, that can deliver positive outcomes for the climate, nature, and people, and we have put in place policies, controls, and reviews to support this.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. Our investments in these areas are underpinned by high quality earnings and cash flows, which continue to support our commitment to a sustainable and growing dividend.

Summary of 2022

Safety remains a primary focus and, in 2022, the Total Recordable Incident Rate was 0.44 (2021: 0.22). This is not where we want our safety performance to be. However, as reported at the half year, the increase is explained in part by two developments. Firstly, a widening of the scope to include contractor incidents. Secondly, improvements in the recording of incidents in our Pellet Production business, including the Pinnacle sites we acquired in 2021.

Since the acquisition we have implemented a health, safety and environmental (HSE) improvement plan across our North American operations and invested in training, human resource, and capital projects to deliver improved performance. We are committed to a strong safety culture across the Group and remain focused on embedding these improvements to uplift performance accordingly.

Adjusted EBITDA of £731 million represents an 84% increase compared to 2021 (£398 million). This reflects increased pellet sales, a strong system support and renewable power generation performance across the portfolio, and improved profitability in our Customers business.

Our balance sheet is strong, with total cash and committed facilities of £698 million and Net debt of £1,206 million.

Operationally, the Group's biomass, pumped storage, and hydro assets have continued to support UK security of supply, providing power system stability at a time of higher gas prices and volatility on the power system.

We have used our pellet production and international supply chain to reprofile biomass from the summer to winter, maximising generation when it is most needed, based on system need and sustainable biomass supply.

While supporting UK security of supply, we have also progressed our options for BECCS in the UK and continued developing new opportunities for the technology in North America.

Drax is a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles concerning respect for human rights, labour rights, the environment, and anti-corruption.

Electricity Generator Levy

In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators, due for implementation in 2023. The levy will apply to the three biomass units operating under the Renewables Obligation (RO) scheme and our run-of-river hydro operations. However, it does not apply to the Contract for Difference (CfD) biomass unit, pumped storage hydro, or coal generation.

Through the second half of 2022, we engaged with the UK Government on the issue of windfall taxes, and their impact on the industry, to ensure a balanced approach. While we do not believe a levy on renewables is appropriate, we welcome clarity and the recognition that the cost base for biomass is different to intermittent renewables such as wind. This is an important distinction, as it means the EGL should not have an adverse impact on biomass generation.

Operational performance

Pellet Production

In North America, our Pellet Production business reported Adjusted EBITDA of £134 million, up 56% (2021: £86 million). This primarily reflects higher levels of production and sales, as well as revised transfer pricing in the second half of 2022.

Pellet production was 3.9 million tonnes (Mt), an increase of 27% (2021: 3.1Mt). This reflects a full 12 months' worth of production from Pinnacle's plants following the acquisition in April 2021. It also reflects increased capacity at Morehouse and LaSalle, both in Louisiana, following their expansion.

In addition, we commissioned three new plants during 2022: Demopolis in Alabama, plus Leola and Russellville (both in Arkansas). In September 2022, we acquired a 90 kiloton (kt) pellet plant in Princeton (British Columbia) from Princeton Standard Pellet Corporation. These four plants combined will add over 500kt of production when at full capacity.

In December 2022, the Group took a Final Investment Decision (FID) to develop two new pellet production projects. The first is a 450kt new-build pellet plant at Longview (Washington State) that includes the development of a new port facility at the location. The second is a 130kt expansion of our Aliceville site (Alabama). The combined investment in these projects is expected to be in the region of $300 million, inclusive of the effect of inflation on construction costs.

The development of the new plant at Longview will provide the Group with access to a new fibre basket and we will also develop port infrastructure at the Port of Longview, adding a fifth port to the Group's North American supply chain, with the opportunity to consolidate additional capacity in the future.

The US Pacific North-West will be the Group's fourth major area of fibre supply alongside the US South; British Columbia; and Alberta. The new facility is expected to support further diversification of the Group's fibre sourcing production and export capacity, supporting sales into Asian and European markets, as well as own-use.

Taken together, existing operations and developments will give Drax a network of 18 pellet plants, with access to five deep-water ports on the East Coast and West Coast of North America.

In addition to our own-use of biomass, the Group also has contracts to supply 22Mt of biomass to Asian and European counterparties. These contracts extend into the 2030s, with total revenues of over $4.1 billion.

Inflationary pressures, primarily in transportation and utilities in North America during 2022, contributed to an increase in our pellet production costs. Together with costs incurred in providing supply-side flexibility, production costs for the Pellet Production business are expected to be higher in 2023. These increased costs have been considered in an adjusted transfer price implemented in the second half of 2022.

We remain focused on opportunities to reduce the cost of biomass but will balance this against the need to optimise our supply chain to deliver value for the Group.

Chief Executive's Review continued

Generation

Adjusted EBITDA of £696 million from continuing operations was an increase of 87% on 2021 (£372 million, inclusive of £20 million from discontinued CCGT operations). This reflects a strong system support and renewable power generation performance across the portfolio, providing high levels of dispatchable renewable and low-carbon electricity and system support services, more than offsetting incrementally higher biomass costs and grid charges. In addition, there was no major planned outage undertaken in 2022, compared to one in 2021.

Against the backdrop of increasing concern around European energy security, we have optimised our biomass generation and logistics, buying back positions in the first half of the year and reprofiling to the second half. These actions provided additional security of supply to the UK at times of expected higher demand.

The process of moving generation between lower and higher demand periods has resulted in an incremental increase in achieved power prices – although this has not been without cost.

We have incurred direct logistics costs associated with changing our delivery programme and managed an increased number of rail delivery cancellations in the UK due to driver availability.

Over the past 12 months, the cost of biomass in the European spot market has increased significantly, making it more challenging to procure and generate additional power with a margin. As a result of higher biomass prices, this created opportunities for the sale of biomass in addition to generation.

Most of the biomass we use is under long-term contracts. However, as we flagged during 2022, inflationary pressures in certain aspects of our supply chain have led to some cost increases and we expect this to continue in 2023.

Our pumped storage and hydro operations – Cruachan Pumped Storage Power Station and the Lanark and Galloway hydro assets – performed strongly helping to provide system stability. Together with the Daldowie energy from waste plant, Adjusted EBITDA was £171 million (2021: £68 million).

To move towards net zero, the UK needs to reduce its reliance on fossil fuel generation from unabated gas. It also needs to increase the amount of renewables, likely from intermittent wind and solar. In this context, the role of flexible, dispatchable renewables like biomass, pumped storage, and hydro has never been more important. They are dispatchable and dependent on neither the weather nor the price of gas. As such, we believe they represent a long-term part of the UK power mix.

This underpins our plans for a potential investment in the expansion of Cruachan Pumped Storage Power Station, and we continue to expect to take a FID in 2024. You can read more about this opportunity on page 32.

In July 2022, at the request of the UK Government, Drax entered into an agreement with National Grid, to provide a "winter contingency" service to support the UK power system via its legacy coal units. The units will not generate commercially for the duration of the agreement and will only operate if, and when, instructed to do so by National Grid.

How does Drax support Government Net Zero Strategy ?

Government milestones

2012

UK Government publishes a Bioenergy Strategy outlining policy support for bioenergy to deliver genuine carbon reductions and to help meet UK carbon emissions objectives to 2050 and beyond

2019

UK becomes first major economy to set a legally binding target to deliver net zero greenhouse gas emissions across all sectors by 2050

2020

12.6% of total electricity generated from biomass. Fossil fuel generation reaches a record low, dropping from 75.4% 2010 to 37.7% in 2020

2021

Renewable capacity grows fivefold since 2010, driven by the deployment of wind, solar and biomass. Glasgow hosted COP26 and published the Net Zero Strategy

Government selects East Coast Cluster as a priority Track 1 CCUS cluster

2022

Government launches a submission process for power BECCS projects to be considered for business model support

Drax milestones

2012

Drax completes the largest steam turbine modernisation programme in UK history at Drax Power Station (DPS) upgrading high- and low-pressure turbines

2013-2018

Conversion of four generating units to run on sustainable biomass alongside development of new biomass receipt, storage and distribution system at DPS

2019

Drax acquires hydro assets in Scotland, including the second largest pumped hydro storage site in the UK – Cruachan

2020

DPS becomes the largest single site generator of renewable power in the UK producing 14.1 TWH

2021

Drax carbon emissions drop by over 90% since 2012 – CO_2 emissions per unit of electricity were just 9% of their 2012 amount

2022

Drax ends commercial coal generation January 2022

Coal operations extended by six months at the request of UK Government to support winter energy security. Final closure expected March 2023

Planning applications to build UK's first BECCS project at DPS and to expand pumped storage hydro capacity at Cruachan

To date National Grid has not instructed the units to run, other than for testing. The contract, which covers the period October 2022 to March 2023, provides a fixed fee for the provision of the units with National Grid remunerating Drax for costs, including the coal and carbon associated with any generation.

The winter contingency service agreement is not expected to interfere with our plans for developing BECCS at Drax Power Station. Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units at the end of March 2023 on conclusion of the contract with National Grid.

In March 2022, the Group signed a development agreement with Engineering, Procurement and Construction (EPC) contractor Mytilineos for the development of three 299MW Open Cycle Gas Turbines (OCGTs). Each plant is expected to require investment in the region of £100 million across the period 2022 to 2024. This investment is underpinned by a 15-year Capacity Market agreement for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

Customers

Our Customers business has performed well in 2022 with Adjusted EBITDA of £26 million (2021: £6 million). The performance is an improvement on 2021, when Covid-19 had an impact – principally in the area of the business working with small or medium-sized enterprise (SME) customers.

Over the past two years, we have restructured the Customers business. This has included streamlining operations, with the closure of offices in Oxford and Cardiff, and rebranding the Haven Power Industrial & Commercial (I&C) business to Drax Energy Solutions. These changes will support the development of our core I&C supply business, which has performed well with growth in the contracted sales position to high-quality customers.

We see an important role in supporting the decarbonisation of I&C businesses through the supply of renewable energy, asset optimisation, electric vehicle services, and carbon offset certificates, which we believe could evolve in the future to the provision of carbon removals.

Our assets produced on average 19% of the UK's renewables at times of peak demand across the year and up to 70% on certain days. This underlines the important role that Drax plays in security of supply in the UK.

2023

Universal support for energy bills for domestic and business consumers end in March. Targeted support to replace from April onwards

2024

Coal-fired power generation to end in the UK

Government to introduce policy to support Large Scale Long Duration Storage technologies including pumped hydro

2024

Building BECCS at DPS begins, subject to being granted a Development Consent Order. Drax completes refurbishment of Galloway hydro stations

2024-2025

Cruachan expansion: construction begins, subject to favourable policy framework

2027

First BECCS unit at DPS operational, capturing 4Mt of CO_2 per year

2030

Second BECCS unit at DPS operational. The two units aim to capture a combined total of 8Mt of CO_2 per year by the end of 2030

Cruachan expansion operational

Drax aims to become carbon negative by 2030

2030

UK Carbon Budget target for 57% reduction in emissions. Ambition to deploy at least 5 Mt of CO_2 per year of engineered carbon removals

2035

UK power generation to be completely decarbonised. UK Carbon Budget target for 78% reduction in emissions

2050

UK aims to reach net zero emissions

Chief Executive's Review continued

Our Customers business has seen some increase in bad debt, reflecting the impacts of higher prices. We have robust processes in place to manage this.

Strategy

Our strategy is designed to realise our purpose of enabling a zero carbon, lower cost energy future and our ambition to be a carbon negative company by 2030.

The strategy includes three complementary strategic pillars, closely aligned with global energy policies. These pillars are to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power.

A global leader in sustainable biomass pellets

We believe the global market for sustainable biomass will grow significantly, creating international opportunities for sales to third-parties, BECCS, generation and other long-term uses of biomass.

To support this expected growth in demand for biomass products, Drax is targeting 8Mt of pellet production capacity by 2030. This will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and developments. We are developing a pipeline of organic projects, principally focused on North America, which includes the recently announced Longview project. We will also look at other opportunities where appropriate.

Drax is differentiated as a major producer, supplier and user of biomass, active in all areas of the supply chain, with long-term relationships and 20 years of experience in biomass operations. The Group's innovation in coal-to-biomass engineering, together with the development of a leading position in carbon removals, can be deployed alongside its large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships. We expect to sell all the biomass we produce at an appropriate market price (both for own use at Drax Power Station and to third-parties), typically under long-term contracts.

A global leader in carbon removals

BECCS – UK

We continue to develop options for BECCS. We plan to transform Drax Power Station, through the addition of post combustion carbon capture to two of the existing biomass units, using sustainable biomass and technology from Drax's technology partner, Mitsubishi Heavy Industries (MHI). Captured carbon dioxide (CO_2) will be transported and stored by the Group's partners in the East Coast Cluster. By 2030 the project aims to permanently remove 8Mt of CO_2 per annum. An investment decision could be taken in 2024, subject to the right investment framework.

In addition, Drax awaits the outcome of its bid into the "Track 1" Power BECCS submission process and publication of the Government's Biomass Strategy.

Alongside MHI's technology, we are supporting other innovative options for carbon capture. For example, Drax is an equity shareholder in C-Capture Limited, which is developing a solvent technology that could be used for BECCS and other applications. We believe this could deliver significant long-term cost savings for future projects.

BECCS – North America

We want to capitalise on our belief in the global need for BECCS and the technical expertise gained from our Drax Power Station project. Our ambition is to deliver 4Mt of carbon removals each year from BECCS outside of the UK by 2030. Accordingly, we are developing models and locational preferences for global BECCS developments, with a primary focus on North America.

Opportunities under consideration include new-build BECCS power stations, as well as developing options for a pellet plant with carbon capture, and using BECCS as an exportable solution, for example in coal-to-biomass-to-BECCS on non-Drax assets.

Key considerations for these opportunities include proximity to sustainable biomass fibre, carbon capture and storage (CCS) infrastructure, regulatory support, commercial potential, and technology.

We are currently evaluating a range of potential financial models for these projects. These could include long-term Power Purchase Agreements (PPAs), long-term Carbon Dioxide Removal (CDR) offtake agreements, and government investment frameworks. In September 2022, we announced a Memorandum of Understanding (MoU) with Respira, which could see the largest volume of carbon dioxide removals (CDRs) traded so far globally. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects.

The regulatory environment for BECCS in the US continued to develop in 2022, with the inclusion of BECCS as an eligible technology under the Department of Energy climate goals funding scheme and the increase in 45Q support to $85 per tonne of CO_2 captured, under the Inflation Reduction Act (2022).

Furthermore, a recent National Renewable Energy Laboratory report highlights that, by 2035, the US could need around 100Mt of carbon removals from BECCS to offset remaining carbon emissions in the power sector. In addition, recent State level developments in Louisiana and California have both been supportive of the development of BECCS.

Research by the Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate science, is also supportive. The IPCC's research states that CDR methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

The illustrative mitigation pathways assessed by the IPCC use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

We believe there are significant growth opportunities linked to BECCS in North America. To progress these opportunities in 2023, the Group expects to invest in development expenditure in the region of £30 million with a view to advancing these opportunities to a FID. We expect to update on progress with these opportunities in 2023.

A UK leader in dispatchable, renewable generation

The UK's plans to achieve net zero by 2050 will require the electrification of sectors such as heating and transport systems, resulting in a significant increase in demand for electricity. We believe that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could help meet this demand. However, this will only be possible if the remaining power sources can provide the dispatchable power and non-generation system support services required to ensure security of supply and to limit the cost to the consumer.

Long-term biomass generation and pumped storage hydro can provide these increasingly important services and we are developing an option for new pumped storage – the expansion of Cruachan Power Station – to provide an additional 600MW of dispatchable long-duration storage to the power system. A planning application was submitted in May 2022, and any investment remains subject to the right investment infrastructure and support.

The location, flexibility and range of services Cruachan can provide makes it strategically important to the UK power system. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework.

Biomass sustainability

Delivering positive outcomes for the climate, nature, and people are central to our plans. Ensuring that we only use biomass that is sourced sustainably is key to this ambition. You can read more about biomass sourcing in Sustainable Development on pages 36 to 74.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe represents an important part of both UK and international renewable energy policy.

Drax sources its biomass from well-established forestry markets mainly in the US and Canada, as well as Europe. The main output from these markets is sawlogs, which are processed for use in construction and manufacturing. When used in this way, these materials represent a source of long-term carbon storage and, when the forest regenerates or is replanted, the growing trees absorb carbon from the atmosphere.

Drax supports these forest economies by providing incremental secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill and has limited alternative uses. These materials include bark, branches, low-grade wood and woody matter from forest management activities (thinning), in addition to purchasing sawmill residues. This reduces the risk of wildfire and the spread of disease, and allows for replanting of the forest. Where there would otherwise be no demand for these materials, they are sometimes burned at the roadside, as happens in British Columbia.

In the US South, the periodic thinning of a forest helps improve the size and quality of sawlogs when the trees reach maturity, the economic value of the timber produced and the carbon absorbed and stored, as well as forest health and biodiversity.

If forests were not thinned, the revenue from sawlogs would be reduced and landowners may consider other uses for their land, such as agricultural crops and livestock farming. The management of forestland to produce sawlogs ensures forests are growing vigorously and absorbing carbon, which means forests remain a carbon sink.

Forests in the areas where Drax sources material are subject to national and regional regulation and typically supported by, and independently monitored for compliance by, forest certification schemes. These include the Forestry Stewardship Council (FSC® C119787), the Sustainable Forestry Initiative (SFI), and the Programme for the Endorsement of Forest Certification (PEFC) (PEFC/16-37-1769).

We supplement this regulation through our own Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program (SBP), in respect of woody biomass used at Drax Power Station.

Outlook

The Group is continuing to play an important role in supporting energy security of supply in the UK, using our supply chain and flexible, renewable generation portfolio to provide large volumes of reliable renewable power and system stability at a time of higher gas prices.

Our long-term focus remains on progressing our strategy and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS. The potential for the growth in carbon removals, and the opportunity this could afford BECCS in the UK and our plans for North America, is significant and we expect to make further progress on these options during 2023.

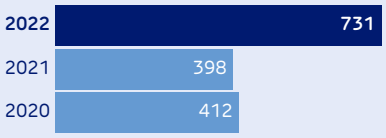
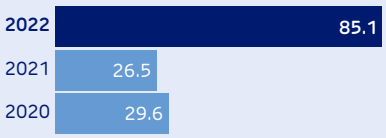
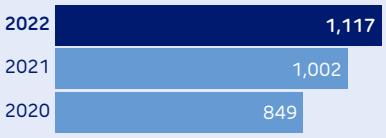
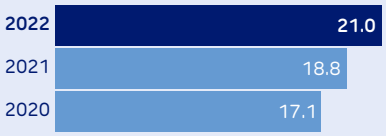
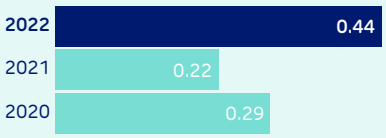
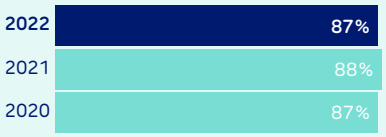
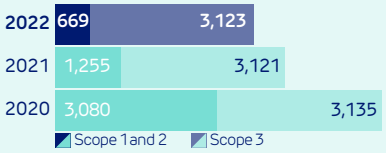
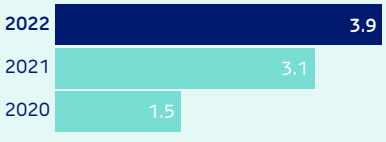
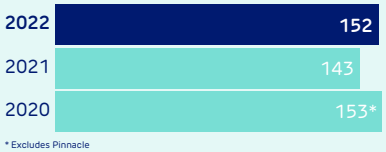
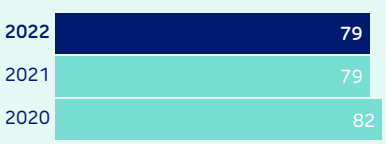
Through these strategic objectives, we expect to create opportunities for long-term international growth underpinned by strong cash generation and attractive returns for shareholders, and to deliver value for our other stakeholders.

Will Gardiner,
Chief Executive Officer

Key performance indicators

Our Strategic Pillars:

- To be a global leader in sustainable biomass pellets
- To be a global leader in carbon removals
- To be a UK leader in dispatchable, renewable generation

Measure	Definition/why it matters	Performance
Adjusted EBITDA (£million)	This is our principal financial performance metric, combining the earnings of each business to give a Group outcome. The reconciliation of statutory earnings to Adjusted EBITDA is on page 206.	
Adjusted basic EPS (pence)	This is an important measure of our profitability – showing adjusted earnings on a per share basis. The calculation of Adjusted basic EPS is on page 208.	
Average Net debt (£million)	This is a key measure of our liquidity and our ability to manage our current obligations.	
Dividends (pence per share)	This is a primary measure of our value creation for our shareholders.	
Total recordable incident rate (TRIR)	Keeping our people safe is a core principle. TRIR is an industry standard measure of fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. You can read more about health, safety, and wellbeing in People Positive on page 68.	
Biomass generation availability	This is an important measure of the amount of time our biomass generation assets are available to generate electricity or provide system support services. This is calculated as the full capacity of the biomass units, less planned outages and unplanned outages, as a percentage of full capacity.	
Group carbon emissions Scope 1, 2 and 3 ($ktCO_2e$)	We are focused on reducing carbon emissions – as measured by Scope 1, 2 and 3 – which enables us to track progress towards our carbon negative ambition. You can read more about this in Climate Positive on page 61.	
Pellets produced (Mt)	This measures a key part of our strategy – to increase our pellet production capacity and output. This represents the number of pellets produced in millions of tonnes.	
Cost of production ($/t)	This measures a key part of our strategy – to reduce the cost of biomass produced. This is calculated as the weighted average of the cost per tonne of pellets produced.	
Employee engagement score (%)	An engaged and motivated workforce is a critical component in delivering our strategy. This is measured through our annual engagement survey. You can read more about employee engagement in People Positive on page 66.	

Type:

- Financial
- Non-Financial

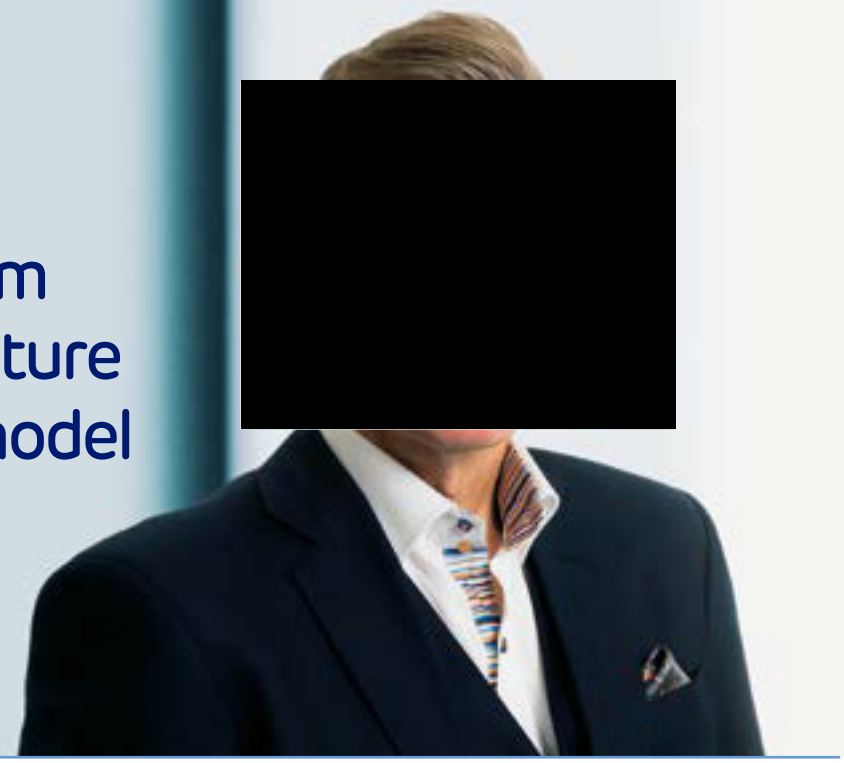
Our Risks:

1. Environment, Health & Safety
2. Political & Regulatory
3. Strategic
4. Biomass Acceptability
5. Plant Operations
6. Trading & Commodity
7. Information Systems & Security
8. Climate Change
9. People

Target	Strategic link	Link to risks	Link to remuneration
To grow the Adjusted EBITDA of the Group to support investment in the strategy.		2 3 4 5 6 7 8	The Adjusted EBITDA performance measure has a 40% weighting on the bonus scorecard. See page 147
To grow Adjusted basic EPS of the Group.		2 3 4 5 6 7 8	Cumulative Adjusted basic EPS is a performance condition of the LTIP and has a 50% weighting and is measured over a three-year period. See page 132
Long-term target of Net debt to EBITDA of around 2.0 times.		3 4 5 6 8	The leverage (Average Net debt) performance measure has a 20% weighting on the bonus scorecard. See pages 147 and 148
To pay a growing and sustainable dividend.		2 3 4 6 8	Dividends are a strong indicator of total shareholder return (TSR). TSR is a performance condition of the LTIP and has a 50% weighting over three years relative to the FTSE 350. See page 132
TRIR of 0.20 per 100,000 hours worked.		1 9	Safety acts as a bonus modifier for the 2022 scorecard, underpinning the overall bonus award for all employees. See page 147
High level of biomass availability when required.		2 3 4 5 6 8	The availability of the biomass generation assets has a direct impact on Adjusted EBITDA and Adjusted basic EPS.
To be carbon negative by 2030 across our direct business operations globally.		2 3 4 5 6 8	The 2022 bonus scorecard has a 13.3% weighting on measures focused on reducing Drax's carbon emissions, including the development of a low carbon pellet mill and UK BECCS. See pages 147 and 148
8Mt p.a. of production capacity by 2030.		3 4 5 6 8	Increasing the pellet production capacity is a key component in growing reported Adjusted EBITDA results. In addition, the 2022 bonus scorecard includes a 6.7% weighting on the development of a low carbon pellet mill.
Continue to identify opportunities to reduce the cost of biomass produced.		3 4 5 6	This metric is a key driver of Adjusted EBITDA and Adjusted basic EPS performance measures, which impact the overall bonus award and LTIP.
Maintain employee engagement year-on-year.		1 9	The Inclusion Index, which forms part of the employee engagement score and measures how included colleagues feel about working at Drax, is a KPI in the bonus scorecard and has a 6.7% weighting. See pages 147 and 148

Financial Review

We benefited from the integrated nature of our business model



Andy Skelton, Chief Financial Officer

2022 financial highlights

- Strong financial performance – Adjusted EBITDA from continuing and discontinued operations of £731 million (2021: £398 million)
- Closing Net debt to Adjusted EBITDA of 1.6 times (2021: 2.8 times), reducing to 1.3 times excluding cash collateral posted (2021: 3.2 times)
- Total operating profit from continuing operations of £146 million (2021: £197 million)
- Cash generated from operations of £320 million (2021: £354 million)
- Strong liquidity – cash and committed facilities of £698 million (2021: £549 million)
- 12% increase in total dividend to 21.0 pence per share, a total cost of £84 million

Introduction

Consolidated Adjusted EBITDA of £731 million (2021: £398 million) reflects a strong contribution from all business units as we benefited from the integrated nature of our business model, against a backdrop of volatile macroeconomic conditions. Cash generated from operations of £320 million (2021: £354 million) is stated after cash collateral outflows of £407 million during the year, associated with forward sales of power (2021: inflows of £168 million). Excluding the impact of these cash collateral outflows, the underlying cash generated from operations grew significantly, reflecting the increase in Adjusted EBITDA.

Closing Net debt to Adjusted EBITDA of 1.6 times (2021: 2.8 times) is significantly below the Group's long-term target of 2.0 times and reduces to 1.3 times if collateral posted of £234 million is adjusted for (2021: 3.2 times, collateral held of £173 million).

Total operating profit was £146 million (2021: £197 million). Total gross profit increased by £132 million to £1,023 million (2021: £891 million) but this was offset by increases in operating and administrative expenses, impairment losses on financial assets, increased depreciation charges, and impairment of non-current assets.

Capital expenditure of £255 million grew 7% compared to £238 million in 2021, with £127 million spent on major strategic initiatives, including £90 million on the development of our OCGT projects. The proposed full year dividend of 21.0 pence per share reflects a 12% increase on the previous year (2021: 18.8 pence per share) as the Group continues to pay a sustainable and growing dividend in line with its long-standing capital allocation policy.

Financial performance

Adjusted EBITDA

Adjusted EBITDA of £731 million is an 84% increase (2021: £398 million). All business units delivered an increase in Adjusted EBITDA compared to the previous year.

Our Pellet Production business generated Adjusted EBITDA of £134 million (2021: £86 million). This reflects increased production volumes attributable to commissioning new sites and a full year of ownership of Pinnacle, an uplift in the Group's intercompany sales price between our Pellet Production and Generation businesses, and increased value achieved from sales of biomass in the spot market, partially offset by increased costs of production.

Our pellet business produced 3.9Mt of pellets and shipped 4.7Mt (2021: 3.1Mt produced and 3.2Mt shipped). Of this volume 2.2Mt was sold to third parties (2021: 1.2Mt). Increased volume produced primarily reflects the full year impact of the acquired Pinnacle sites, which were added in April 2021 and additional volumes achieved from the commissioning of new sites.

Against the background of volatile commodity prices, the Pellet Production business contributed significant value to the Group by providing flexibility in biomass supply to Drax Power Station. During 2022 we saw cost increases and inflationary pressures, particularly in relation to utilities and transportation, and incurred additional costs reprofiling biomass cargoes, both own use and third-party, to support the provision of flexible generation to the UK power system. The value achieved in the Generation business exceeded the extra costs incurred.

Financial highlights

Adjusted EBITDA from continuing and discontinued operations

£731m
(2021: £398m)

Adjusted operating profit from continuing operations

£469m
(2021: £170m)

Total operating profit from continuing operations

£146m
(2021: £197m)

Cash generated from operations

£320m
(2021: £354m)

Adjusted basic earnings per share from continuing and discontinued operations

85.1 pence
(2021: 26.5 pence)

Total basic earnings per share from continuing and discontinued operations

21.3 pence
(2021: 20.0 pence)

Net debt to Adjusted EBITDA ratio

1.6 times
(2021: 2.8 times)

Total dividend per share

21.0 pence
(2021: 18.8 pence)

		Year end 31 December	
		2022	2021
Financial performance (£m)	**Total gross profit**	**1,023**	891
	Operating and administrative expenses	**(543)**	(470)
	Impairment losses on financial assets	**(48)**	(16)
	Depreciation and amortisation	**(239)**	(199)
	Impairment of non-current assets	**(42)**	–
	Other	**(6)**	(10)
	Total operating profit	**146**	197
	Exceptional costs and certain remeasurements	**323**	(26)
	Adjusted operating profit	**469**	170
	Adjusted depreciation, amortisation, asset obsolescence charges and losses on disposal of fixed assets	**261**	208
	Adjusted EBITDA from continuing operations	**731**	378
	Adjusted EBITDA from discontinued CCGT operations	**–**	20
	Adjusted EBITDA from continuing and discontinued operations	**731**	398
Capital expenditure (£m)	Capital expenditure for the year	**255**	238
Cash and Net debt (£m unless otherwise stated)	Cash generated from operations	**320**	354
	Net debt*	**1,206**	1,108
	Net debt to Adjusted EBITDA (times)*	**1.6**	2.8
	Cash and committed facilities	**698**	549
Earnings (pence per share)	Adjusted basic	**85.1**	26.5
	Total basic	**21.3**	20.0
Distributions (pence per share)	Interim dividend	**8.4**	7.5
	Proposed final dividend	**12.6**	11.3
	Total dividend	**21.0**	18.8

We calculate Adjusted financial performance measures, which exclude income statement volatility from derivative financial instruments and the impact of exceptional items. This allows management and stakeholders to better compare the performance of the Group between the current and previous year without the effects of this volatility and one off or non-operational items. Adjusted financial performance measures are described more fully on page 179, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 203.

Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 31 January 2021, the Group completed the sale of its portfolio of CCGT assets to VPI Generation Limited. Because of this transaction, the results of the CCGT portfolio for 2021 have been classified as discontinued operations in the Consolidated financial statements. References to financial performance measures throughout this annual report refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 5.4 to the Consolidated financial statements. Tables in this financial review may not add down/across due to rounding.

*In previous years Net debt was presented on a 'before the impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness, i.e. to reflect the fixed GBP cash flows of foreign currency denominated debt. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. A reconciliation of and between these measures can be seen in note 2.7 to the Consolidated financial statements.

We also incurred commissioning costs at new sites as we continue to invest to expand capacity to support future growth opportunities in North America.

Despite these cost increases, we continue to see opportunities for cost reduction through additional production at existing plants, driving efficiencies in production and logistics, and implementing new technologies and innovation.

Our Generation business contributed £696 million of Adjusted EBITDA, all from continuing operations (2021: £372 million, inclusive of £20 million from discontinued CCGT operations). Reprofiling of generation during the year allowed Drax Power Station to support security of supply and maximise generation during the winter months, based on the needs of the UK power system.

This optimisation was underpinned by strong operational performance, which effectively mitigated the increased risk of an unplanned outage during periods of high power prices. In line with our hedging policy, we managed this increased risk by retaining a proportion of generating capacity unhedged.

The Group's hydro and pumped storage assets continued to supply renewable electricity and essential services to the UK power system and, inclusive of the results of the Daldowie energy from waste plant, contributed £171 million of Adjusted EBITDA in 2022 (2021: £68 million). This increase was achieved through higher hedged power prices, increased rainfall in 2022 against a particularly low year in 2021, and increased provision of critical services to the system operator in support of system stability. This result is net of a £6 million payment to the Voluntary Energy Redress Fund.

The extension to the availability of the coal units at Drax Power Station at the request of the UK Government, as discussed in the CEO's Review, delivered income during the final quarter of 2022.

The Customers business contributed £26 million of Adjusted EBITDA during 2022, a significant increase on the £6 million delivered in 2021. This reflects continued improvement from 2020, when the impact of Covid-19 resulted in a loss of £39 million. Volumes sold increased to 19.4TWh in 2022 (2021: 18.7TWh).

Our policy is to fully hedge power purchases for the duration of a sales contract at the point that the contract is signed, based on the customer's forecast consumption. During 2022, because of increased market prices and lower customer demand profiles, we benefited from the resale of forward hedged power back into the merchant market above the contracted rate. Most of this benefit arose in the first half of 2022.

The total bad debt charge for 2022, net of credits, was £48 million (2021: £16 million), an increase of £32 million. This increase reflects the impact of higher commodity prices, which feeds through to increased revenues and gross profit but also to increased gross trade receivables. Before the application of credits, the bad debt charge represents 1.4% of total revenue for the Customers business (2021: 1.4%).

The overall bad debt provision at 31 December 2022 of £61 million (representing 18% of the Group's gross trade receivables balance) compares to £47 million at 31 December 2021 (20% of the Group's gross trade receivables balance). The net trade receivables balance relating to the Customers segment at 31 December 2022 was £244 million (31 December 2021: £161 million).

The bad debt provision reflects forward-looking consideration of the potential impacts of UK Government support to customers and other macroeconomic conditions. The Energy Bill Relief Scheme, introduced by the UK Government, became effective from 1 October 2022. It provides financial support for non-domestic UK energy customers by implementing a cap on their energy tariff. This scheme ends in March 2023 and will be replaced by the Energy Bill Discount Scheme, which will continue to provide support for businesses via a discount on their tariff, as opposed to a cap.

Subsequent to 31 December 2022, following a strategic review the Group decided to exit the market for supplying gas to SME business customers, leading to the end of all gas sales by the Group. Having already ceased acquiring new gas customers, no renewal contracts will be offered after May 2023. We anticipate the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Innovation, capital projects, and other costs of £124 million (2021: £65 million) primarily reflects increased spending to support our growth ambitions and progress opportunities on major projects which have not reached the stage where costs can be capitalised (such as global BECCS). Innovation and capital projects accounts for £12 million of this increase. The main components of the £47 million increase in other costs were insurance costs (£8 million), elimination of intra-group profits (£10 million) and additional variable pay charges (£7 million).

Total operating profit

Total operating profit from continuing operations decreased from £197 million in 2021 to £146 million in 2022. Within this is an increase in Total gross profit of £132 million to £1,023 million (2021: £891 million) and an increase in Total operating expenses of £73 million to £543 million (2021: £470 million) reflecting the factors discussed above in relation to Adjusted EBITDA.

As shown in the table on page 21, the difference between Adjusted EBITDA and Total operating profit results from adjustments for a net loss on exceptional costs and certain remeasurements of £323 million (2021: a net gain of £26 million) and charges associated with fixed assets of £261 million (2021: £208 million). These factors are discussed further below.

The net loss from remeasurements on derivative contracts of £298 million (2021: a £48 million gain), reflects adverse movements in the valuation of gas and inflation contracts, offset by favourable movements in the valuation of our foreign exchange portfolio, as sterling weakened during 2022. For more detail on the nature and valuation of our portfolio of derivative contracts, please see note 7.1 to the Consolidated financial statements. The Group excludes these certain remeasurements from Adjusted results to present a clear and consistent review of trading performance, as described in the basis of preparation and note 2.7 of the financial statements.

Exceptional costs for 2022 totalled £25 million (2021: £22 million). Of this charge, £19 million reflects the write down of previously capitalised costs in respect of a billing system where the Group has stopped development and where proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that any future economic benefit will be recovered as an ongoing intangible asset. In accordance with accounting standards, the previously capitalised balance has therefore been impaired. Following consideration with external professional advisers, the Group continues to believe this previously incurred expenditure will be recovered from the supplier, and there has been no change in this position during 2022. Accordingly, an associated contingent asset has been disclosed, see note 7.6 to the Consolidated financial statements.

The remaining £6 million of the 2022 charge relates to previously capitalised Software as a Service costs, which

were written off following a change in accounting policy effective 1 January 2022. For more information on this change in accounting policy see the basis of preparation of the Consolidated financial statements.

Depreciation and amortisation charges increased from £199 million in 2021 to £239 million in 2022. Of this increase, £13 million is attributable to the inclusion of Pinnacle for a full year in 2022, and £7 million to depreciation on new sites. The remainder is attributable to accelerated depreciation of certain pellet plant equipment in line with planned capital upgrades.

Adjusted impairments of non-current assets was £17 million (2021: £nil). Of this total charge £9 million relates to the impairment of the Group's fourth OCGT development opportunity, which is considered unlikely to be developed at the current time. The three projects that have already secured Capacity Market contracts remain in development, ready to meet their obligations when those contracts commence in 2024. The expected economic benefit to the Group continues to be attractive. A further £8 million relates to a partial impairment of the assets of the Daldowie energy from waste plant, due to a reduction in the forecast earnings over the remaining period of ownership to 2026, when the assets will be transferred back to Scottish Water after they triggered an option in the Private Finance Initiative agreement.

Profit after tax and earnings per share

Total net interest charges for 2022 of £68 million reduced in the year (2021: £75 million). The movement included a foreign exchange gain of £11 million (2021: £4 million loss) which resulted from the weakening of sterling during 2022, and the subsequent revaluation of intercompany loans denominated in foreign currencies (further details on this are included in note 2.5 to the Consolidated financial statements). This reduction has been offset by an increase in monetisation fees related to the facility available to accelerate cash flows associated with trade receivables in the Customers business, as that facility has increased in size from £200 million to £400 million during 2022, as discussed on page 228.

The Total tax credit of £4 million includes a charge of £67 million on Adjusted results offset by a credit of £72 million on exceptional items and certain remeasurements, the latter predominantly driven by the tax impact of the £302 million of certain remeasurements discussed on page 22.

The effective tax rate applicable to the Group's Adjusted pre-tax profits of 17% (2021: 12%) is below the standard rate of corporation tax in the UK and includes the effect of tax rates in overseas jurisdictions. This rate is lower than the standard rate in the UK because of credits attributable to Patent Box and the super-deduction for qualifying plant and machinery, announced in March 2021 and running until March 2023. The increase in effective tax rate from 2021 has been driven by growth in UK-based profits, diluting the impact of the Patent Box and super-deduction credits.

The exceptional deferred tax credit of £10 million in 2022 (2021: £49 million charge) relates to the corporation tax rate changes announced by the UK Government in 2021, being a planned increase from 19% to 25% in April 2023.

In November 2022 the UK Government announced the Electricity Generator Levy, as explained on page 13. The levy is not deductible for corporation tax purposes and therefore will result in an increase in the Group's effective tax rate for 2023. Payment of the levy will be in line with the Group's arrangements for corporation tax payments, once substantively enacted.

Adjusted and Total profit after tax attributable to the discontinued CCGT operations was £nil during 2022 (2021: £17 million and £24 million respectively). The above factors all contributed to Adjusted basic earnings per share of 85.1 pence (2021: 26.5 pence) and a Total basic earnings per share figure of 21.3 pence (2021: 20.0 pence).

Capital expenditure

Capital expenditure in the year was £255 million (2021: £238 million). £127 million was on strategic initiatives, including £90 million in respect of development of our OCGT projects and £19 million on UK BECCS, £79 million on maintenance capital, £27 million on enhancing existing assets and £22 million on Health, safety, environment and IT.

The OCGT projects are progressing in line with the requirement to be operational at the beginning of their Capacity Market contracts in 2024. Delivery of our UK BECCS project is subject to a final investment decision, which is expected in 2024 and dependent on the right regulatory and investment framework. Commissioning of certain pellet assets in North America progressed more slowly than anticipated during 2022. Our capital projects and operations teams are focused on achieving full production capacity as soon as possible during 2023.

Capital expenditure in the year was £255 million (2021: £238 million). £127 million was on strategic initiatives, including £90 million in respect of development of our OCGT projects and £19 million on UK BECCS

In September 2022 the Pellet Production business completed the acquisition of a 90kt pellet plant in Princeton, British Columbia, for consideration of C$11.5 million. The plant will contribute to the Group's strategy to increase pellet production to 8Mt per year by 2030.

Cash and Net debt

Cash generated from operations

Operating cash flows before movements in working capital and defined benefit pension obligations for the period was £734 million (2021: £337 million), primarily reflecting the increase in Adjusted EBITDA.

Cash generated from operations in 2022, inclusive of movements in working capital, of £320 million compares to £354 million in 2021. The total outflow of £403 million on working capital includes an outflow during the year of £407 million relating to cash collateral. This has been driven by increased use of exchange traded contracts during the year, with increased commodity prices meaning that counterparty credit limits had to be managed carefully. Exchange traded contracts typically require an up-front margin payment and cash collateralisation of mark-to-market positions. Excluding the cash flows in relation to collateral during the year there was a small working capital inflow.

At 31 December 2022, the Group had posted £234 million of cash collateral (2021: held £173 million of cash collateral). When the associated trades mature in 2023 and 2024 there will be a corresponding working capital inflow, however market movements and new trades will continue to determine overall cash collateral requirements in the future.

Financial Review continued

There was a net outflow in relation to trade and other receivables during the year. Excluding movements in working capital facilities and cash collateral postings, trade receivables increased by £551 million. This was driven primarily by higher billing in the Customers business, reflecting increased commodity prices. The facility available to accelerate cash flows associated with trade receivables in the Customers business, on a non-recourse basis, was extended during 2022 from £200 million to £400 million. The extended facility was fully utilised during the year, resulting in a cash inflow of £200 million and a corresponding reduction in receivables. This reduction was offset by an outflow of £234 million on collateral posted, as described above, which is recorded within receivables.

The overall working capital inflow of £317 million from payables in 2022 was predominantly driven by increases in the Customers business, reflecting higher commodity prices on power and gas purchases. This was partially offset by the change from holding net cash collateral of £173 million at the beginning of 2022 to having posted £234 million at the end of the year, with the gross movement on collateral at the beginning of 2022 showing as a reduction in payables.

A £114 million inflow from renewable certificate assets was driven by the monetisation of ROCs using available facilities, partially offset by the increase in ROC assets attributable to generation in the year.

Cash outflows on inventories totalled £133 million during 2022, resulting in part from the reprofiling of generation from summer to winter, meaning more cash was held in inventory at 31 December 2022.

Net cash movements

Capital expenditure cash flows for 2022 totalled £171 million (2021: £209 million). Cash flows associated with capital expenditure on the three OCGT projects are significantly lower than the accounting additions recorded because of the use of letters of credit to extend payment terms. The amount outstanding under these arrangements at 31 December 2022 was £65 million (31 December 2021: £nil).

Corporation tax payments totalled £39 million in 2022 (2021: £12 million receipts), reflecting higher UK payments on account in respect of the increased profits chargeable to corporation tax.

Net debt and Net debt to Adjusted EBITDA

The Net debt to Adjusted EBITDA ratio is significantly below our target of 2.0 times at 31 December 2022, and reduces to 1.3 times when adjusted for cash collateral posted.

In previous years, Net debt was presented on the 'before impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness position. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. The impact of this change on Net debt at 31 December 2022 is to increase it by £2 million.

Liquidity

Cash and committed facilities at 31 December 2022 of £698 million (2021: £549 million) provide substantial headroom over our short-term liquidity requirements. In addition to cash-on-hand, the Group has access to a £300 million ESG Revolving Credit Facility (RCF) and a C$10 million RCF, to manage low points in the cash cycle. The £300 million ESG RCF expires in January 2025, with a one-year extension clause. No cash has been drawn under this RCF since its inception over three years ago, but £46 million was drawn for letters of credit at 31 December 2022 (31 December 2021: £74 million drawn for letters of credit).

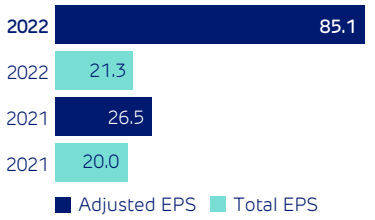
In December 2022 the Group agreed a new 12-month £200 million liquidity facility with its existing lending group. This facility provides an additional source of liquidity to the Group's £300 million RCF. The new facility was temporarily drawn during December, to support optimisation of generation and associated cash collateral postings, but was undrawn at 31 December 2022. Separately, £44 million was drawn under an uncommitted facility during the second half of 2022 and remained outstanding at 31 December 2022 also to support optimisation of generation during winter (31 December 2021: £nil).

During the first half of 2022, the Group utilised existing cash reserves to repay its index-linked term loan facility, with a total cash outflow of £41 million. Our liquidity position remains robust, having put additional measures in place during the year in response to the volatility in commodity markets. All three of our ratings agencies evaluated our outlook as stable during the year.

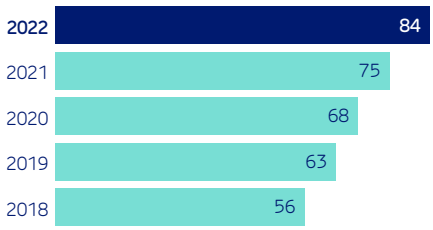
Net debt and Net debt to Adjusted EBITDA

	Year ended 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	**238**	317
Current borrowings	**(44)**	(41)
Non-current borrowings	**(1,397)**	(1,320)
Net debt before impact of hedging instruments	**(1,203)**	(1,044)
Impact of hedging instruments	**(2)**	(64)
Net debt	**(1,206)**	(1,108)
Impact of collateral	**234**	(173)
Net debt excluding collateral	**(972)**	(1,281)
Adjusted EBITDA	**731**	398
Net debt : Adjusted EBITDA (times)	**1.6**	2.8
Net debt excluding collateral : Adjusted EBITDA (times)	**1.3**	3.2

Earnings per share
(pence)



Total dividends
(£m)



Derivatives

We use derivatives to hedge commodity price and foreign exchange risk. In 2022 there was significant volatility in these markets, leading to a net £302 million charge related to certain remeasurements, which we continue to adjust for when presenting Adjusted results. Increases in the value of foreign exchange related derivative contracts were more than offset by increases in liabilities in relation to gas and inflation trades.

The accounting for, and valuation of, these products is complex, and is identified in the key sources of estimation uncertainty of the Consolidated financial statements in the current year.

Rebasing is a process whereby the rates agreed in a contract are modified to current market rates. This leads to an initial cash inflow, as the mark-to-market on the contract is settled at the time of rebasing, with a subsequent outflow in future years, compared to if no action had been taken. The Group rebased contracts during the first half of 2020 to realise working capital benefits in light of the developing Covid-19 pandemic. At the end of 2022, outstanding cash received from rebased cross-currency swap trades was £43 million (2021: £48 million).

Distributions

In line with our long-standing capital allocation policy, the Group is committed to paying a growing and sustainable dividend. On 25 July 2022, the Board approved an interim dividend for the six months ended 30 June 2022 of 8.4 pence per share. This was paid on 7 October 2022 with a record date of 26 August 2022.

At the Annual General Meeting on 26 April 2023, the Board will recommend to shareholders a resolution to pay a final dividend for the year ended 31 December 2022 of 12.6 pence per share. If approved, the final dividend will be paid on 19 May 2023, with a record date of 21 April 2023.

Taken together with the interim dividend this would give a total dividend for 2022 of 21.0 pence per share (2021: 18.8 pence per share), representing a 12% increase, in line with our policy of paying a sustainable and growing dividend.

Our capital allocation policy is unchanged and incorporates maintaining our credit rating; investing in the core business; paying a sustainable and growing dividend and then returning surplus capital beyond investment requirements.

Going concern and viability

As described on page 20, the Group's financial performance in 2022 was strong, delivering improved profitability and a decrease in the Net debt to Adjusted EBITDA ratio. Our financing platform is stable, with most of our principal debt repayments due from 2025 onwards and significant liquidity headroom available from both committed and uncommitted facilities.

The Group refreshes its business plan and forecasts throughout the year, including scenario modelling designed to test the resilience of the Group's financial position and performance to several possible downside scenarios. Based on its review of the latest forecast, the Board is satisfied that the Group has sufficient headroom in its cash and committed facilities, combined with available mitigating actions, to be able to meet its liabilities as they fall due across a range of scenarios.

The Directors therefore have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment, as discussed further on page 75. Consequently, the Directors also have a reasonable expectation that the Group will continue in existence for a period of at least 12 months from the date of the approval of the financial statements and have therefore adopted the going concern basis when preparing the Consolidated financial statements.

Other information

Non-Controlling Interest purchase

On 30 September 2022, the Group completed the acquisition of the remaining 10% minority interest in Alabama Pellets LLC for cash consideration of $22 million. Alabama Pellets LLC contained the two pellet plants at Aliceville and Demopolis, prior to their reorganisation into separate entities. This acquisition provided the Group with economic rights over a further 66 kt of biomass production capacity.

Pension plan merger

Historically, the Group has operated two defined benefit pension schemes, the Drax ESPS scheme and the Drax 2019 scheme, as described further in note 6.3 to the Consolidated financial statements. On 31 January 2023 these two schemes were merged. The impact of this will be to reduce levels of administrative expenses and time taken to manage the two schemes, as well as providing the ability to pool the assets of the schemes when making investment decisions. There will be no change to members' benefits as a result of the merger.

Liquidity

	Year ended 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	**238**	317
RCF available but not utilised	**260**	231
Short-term liquidity facility	**200**	–
Total cash and committed facilities	**698**	549

Stakeholder engagement

Understanding the needs of our stakeholders is essential to our long-term success

Achieving our purpose – to enable a zero carbon, lower cost energy future – and supporting global efforts to reduce carbon emissions are long-term projects. Building sustainable relationships with a diverse range of interested parties is critical in helping us achieve them.

Many of our strategic and investment decisions have multi-year time horizons. We recognise that these decisions can have an impact far beyond our business and well into the future. This is why we seek to understand the needs and perspectives of our stakeholders; and we believe that considering these views improves the quality of our decision making.

Section 172 Statement

Under Section 172(1) of the Companies Act, the Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders: it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver positive outcomes for the climate, nature and people, and to deliver sustainable value creation.

During 2022 the Board's discussions and decision-making considered the matters contained within Section 172, and acted in good faith to promote the sustainable long-term success of the Company. The following pages explain how the Board considered those matters during 2022.

Section 172 matter	How the Board considered those matters
a. The likely consequences of any decision in the long term	• Business model (page 8) • Coal winter contingency (page 107) • Carbon removals (page 12) • Principal Risks (page 77)
b. The interests of the Company's employees	• Workforce engagement (pages 69 and 109) • Diversity and inclusion (pages 69 and 112) • Safety, health and wellbeing (page 67)
c. The need to foster the Company's business relationships with suppliers, customers and others	• Engagement with customers (page 29) • Engagement with suppliers (page 29) • Supplier Code (page 72)
d. The impact of the Company's operations on the community and the environment	• Biomass Sourcing (page 40) • Climate Positive (page 47) • Nature Positive (page 63) • People Positive (page 66) • Taskforce on Climate-related Financial Disclosures (TCFD) (page 52) • Climate change risk (page 89) • Engagement with communities, schools and colleges (page 28) • Drax Foundation (page 32)
e. The desirability of the Company maintaining a reputation for high standards of business conduct	• Ethics and integrity (page 71) • Culture and values (pages 72 and 105) • Speak Up (Whistleblowing) (page 73) • Corporate Governance Code (page 102)
f. The need to act fairly as between members of the Company	• Shareholder engagement (page 27) • Rights and obligations attaching to shares (page 159)

Workforce

Key issues

- **Health, safety and wellbeing**
- **Cost-of-living crisis**
- **Diversity and inclusion**
- **Culture and values**
- **Engagement, recognition**

Principal Risks

- Safety, health and wellbeing, and environment
- People

Engagement activities

We maintain regular dialogue through several workforce engagement activities. These include MyVoice Forums (involving direct dialogue between colleague representatives, and the Chair of the Board and CEO), colleague briefings run by our executive and leaders, dialogue with unions, and our annual engagement and 'pulse' surveys. The CEO also emails a weekly update with a Q&A section responding to colleague questions.

Our MyVoice Forums continue to be a key part of our listening strategy, providing us with a view of colleague sentiment and key topics of interest. We review the results of the MyVoice surveys with our Forums, inviting input on key topics such as recognition and reward, and diversity and inclusion. To learn more about the Forums, see page 69.

The Non-Executive Directors have recorded periodic video messages on a range of topics for distribution across the Group. During 2022, Erika Peterman, Non-Executive Director, spoke about diversity and inclusion; and Nicola Hodson, Chair of the Remuneration Committee, outlined the Committee's role, and explained the annual bonus plan and scorecard measures. The MyVoice Forums provided feedback on these messages to the Chair and CEO.

In 2022, we also held a Group-wide discussion on biomass sustainability and posted the video recording of the event to our intranet. The discussion involved the Plant Director at Drax Power Station posing to the Group Director of Sustainability questions received from colleagues across the business.

Shareholders and investors

Key issues

- **Strategy**
- **Financial and operational performance**
- **Biomass sustainability**
- **BECCS delivery**
- **Environmental, Social and Governance (ESG)**

Principal Risks

- Strategic
- Biomass acceptability
- Political and regulatory

Engagement activities

We engage through a wide range of channels including statutory reporting – full-year and half-year results, trading updates, our AGM, Capital Markets Days, and our website. We also have an ongoing programme of investor relations meetings with shareholders and prospective investors. In 2022, the CEO, CFO and Head of Investor Relations (IR) met shareholders and investors as part of full and half-year results roadshows. These events were a combination of in-person and virtual meetings.

The CEO, CFO and Head of IR also held meetings with investors in North America. In June 2022, the CFO and Head of IR participated in a US road show, meeting investors in New York, Chicago and Boston. The Head of IR also hosted a visit to the US Southeast to show investors and analysts our sustainable biomass sourcing and the associated supply chain. This included a field visit to working forests and meeting with commercial foresters with whom we partner.

The Head of IR and Group Director of Sustainability met with institutional investors and their governance teams to discuss key issues around biomass sustainability and carbon accounting. This was part of an ongoing series of engagements through the year. In November, the Chair met with some investor groups to discuss the Board's approach to biomass sustainability.

At industry conferences, we hosted one-to-one and group investor meetings with the CEO, CFO and Chief Innovation Officer, who explained our ambitions for BECCS. Reflecting growing interest in the opportunity around our planned extension of pumped storage, we hosted two investor site visits to Cruachan Power Station, and an Edinburgh roadshow.

Stakeholder engagement continued

Communities

Key issues

- **That Drax is a responsible business and good neighbour**
- **Tackling climate change**

Principal Risks

- Climate change
- Biomass acceptability
- Strategic

Engagement activities

We engage with local communities in each of the territories in which the Group is active. In Canada, in June 2022 members of the Board were pleased to meet with representatives of First Nations who, as owners of parts of the forests in British Columbia from where we source some of our biomass, partner with us in the sourcing of some of our biomass. You can read more about this on page 33.

Quarterly town and parish council liaison meetings at Drax Power Station, North Yorkshire, allow communication with local communities. There are fixed agenda items where we provide updates on our operations, and the opportunity for local councillors to ask questions and raise any issues.

We believe it is important to undertake engagement with schools and pupils from a young age. We engage directly with schools and colleges to promote interest in science, technology, engineering, and maths (STEM) subjects, and the energy sector. We seek to inspire the next generation and help develop the workforce of the future. Our five-year partnership with Selby College in North Yorkshire aims to implement projects concerned with developing skills in young people that are relevant to modern engineering and green skills. This includes our first BECCS course.

We also work with the seven Selby Cluster Schools – ranging from primary to further education – local to Drax Power Station. We deliver curriculum support and develop hands-on activities such as electric car building, STEM events, careers fairs, and work experience. Our aim is to increase the number of employer interactions over every young pupil's academic life, encouraging engagement throughout school and into early careers.

In the US, we work with several local schools and colleges. These include the University of Louisiana at Monroe (working on a recycling programme) and Delta Community College (employee training). We are also funding classroom grants in Demopolis, Alabama, as well as in Monroe and West Baton Rouge, Louisiana.

In 2023, we plan to launch a new Drax Foundation, which will be an important way for Drax to give back to the communities in which we operate. You can read more about this initiative on page 32.

We also believe our large-scale carbon removal and sustainable generation projects can create thousands of jobs, both directly in the supply chain and in the wider economy. These projects include BECCS at Drax Power Station and the expansion of Cruachan Power Station in Scotland.

Government, political bodies and regulators

Key issues

- **Energy security**
- **Energy costs**
- **Tackling climate change**
- **System stability and flexible generation**
- **BECCS delivery**

Principal Risks

- Climate change
- Biomass acceptability
- Political and regulatory
- Strategic

Engagement activities

We engage with government bodies in the UK, EU, US and Canada on multiple topics including energy security, decarbonisation, BECCS, and the need for system stability and flexible generation. While Drax makes no political donations, it is important that we engage with politicians and their parties, policymakers, and other stakeholders.

In the UK, we engage with political stakeholders at party conferences and through All-Party Groups. We also engage proactively and reactively with political bodies, such as Parliamentary Select Committees, over issues including biomass acceptability. In addition, we engage with relevant Ministers and their teams ahead of significant political proceedings including fiscal events.

We also engage with policymakers around the world (including the EU, Canada and the US), to better understand their plans for tackling climate change, and how sustainable biomass and our plans for carbon removal can be an enabler to them in realising their own goals.

Developed in direct response to shareholder feedback, our political engagement policy is on our website: www.drax.com/about-us/drax-political-engagement-policy/. You can read more about this on page 160.

We engage with relevant teams at the UK regulator Ofgem, the Department for Business, Energy and Industrial Strategy (BEIS), and National Grid. An example in 2022 was in considering making available our coal units to operate under a winter contingency (see page 107). We emphasise the growing need for stable markets and appropriate investment mechanisms to provide enough secure, flexible and dispatchable generation and system support services to the grid. We also engage with Energy UK and the Sustainable Biomass Programme to promote best practice and progressive reform in policy, licences, and standards.

Customers and Suppliers

Key issues

- **Energy costs**
- **Ethical business conduct**
- **Reducing environmental impact**
- **Long-term partnerships**

Principal Risks

- Climate change
- Safety, health and wellbeing, and environment
- Biomass acceptability

Engagement activities

The cost of energy was a critical issue for our customers in 2022 and we implemented the UK Government's support package for businesses, the Energy Bill Relief Scheme (EBRS). We hosted a dedicated phone line for customers requiring additional support with arranging payments tailored to their needs. Where a Trustpilot review has a rating for us of two stars or lower, we assign one of our Energy Relationship Specialists who engage with the customer to identify the reasons behind the rating and try to rectify any issues. We also seek to ensure that such engagement involves the creation of enduring solutions that can improve the service experience overall.

Our internal Operational Excellence team interacts directly with customers to gain feedback about certain processes, to seek to ensure our solutions meet customer needs. Our large Industrial and Commercial (I&C) customers, as well as the Third Party Intermediaries (TPIs) we work with as partners, have dedicated account managers and service delivery managers.

Our relationships with suppliers are governed by contracts that include our minimum standards including compliance with relevant regulatory and legal requirements, anti-bribery and corruption, modern slavery and supplier code of conduct. These minimum standards are regularly reviewed by our Procurement, Legal, and Business Ethics functions. Drax has also signed up to the Prompt Payment Code, and monitors performance to both continue to improve payment performance and maintain positive supplier relationships.

Engagement through our biomass supply chain is a key focus for the Group. We require our suppliers to know from where they source and aim to identify, exclude, or mitigate sustainability risks. Our annual satisfaction survey asks our biomass suppliers for their views on the sustainability and compliance system we require them to use. You can read more about our biomass sourcing in the Sustainable Development section on pages 36 to 74.

Stakeholder engagement in action

Effective engagement helps us to fulfil our purpose, deliver our strategy, and create lasting value and positive outcomes for stakeholders.

Engaging stakeholders in the development of BECCS

As a key part of our long-term strategy, we are developing options for BECCS. We believe BECCS could offer significant long-term value creation opportunities, in addition to being a key part of enabling not just Drax, but the UK and other countries, to reduce carbon emissions.

In order for BECCS to progress, it is vital that there is the right regulatory and investment framework. Through consultation and engagement with stakeholders in 2022, our BECCS project at Drax Power Station has achieved several important milestones: the submission of our Development Consent Order (DCO) planning application; the submission of a project bid to the UK Government as part of the Carbon Capture, Usage and Storage (CCUS) Cluster Sequencing Process; and continued progress on front-end engineering design (FEED).

Ahead of submitting the DCO application, we engaged with statutory and non-statutory consultees on the proposals for BECCS at Drax Power Station, such as local Parish councillors, local planning authorities, the Environment Agency and the Health and Safety Executive. We also agreed a plan for information-sharing and engagement with affected communities.

We continue to engage with the business community in the region through trade unions, local businesses, and business groups such as the Confederation of British Industry (CBI), the Chambers of Commerce, and Local Enterprise Partnerships.

We also discussed policy development and industry views through trade and member associations such as the Carbon Capture and Storage Association and Coalition for Negative Emissions.

A key focus of BECCS engagement is the relationship between Drax and its partners in the East Coast Cluster. We met regularly to share progress updates.

We also engaged with new and future partners and suppliers that can support the delivery of BECCS, for example:

- The National Farmers' Union of England and Wales – to explore opportunities to scale up domestic perennial energy crop production as a potential new feedstock for BECCS
- British Steel – to identify opportunities to locally source steel for the BECCS project
- The BECCS supply chain – using online webinars and in-person 'meet the engineer' events in the Humber and Teesside with our FEED partners, Worley (each in-person event attracted interest from around 300 businesses)

The UK Government is a critical stakeholder for the BECCS project. Throughout 2022, we met with teams in BEIS, HM Treasury, the Department for Environment, Food and Rural Affairs and the Department for International Trade.

In 2023, we will continue building our community and supply chain partnerships. This will include engagement with policy-makers as they refine the power BECCS business model and market frameworks for carbon removals. We will also work with local and regional stakeholders on the planning and consenting aspects of the project.

Through consultation and engagement with stakeholders, our BECCS project at Drax Power Station achieved several critical milestones in 2022

Drax helped to provide a "winter contingency" to bolster the UK's energy security

Decision to extend coal operations at request of UK Government

In July 2022, Drax announced it had agreed to delay the planned closure of its two coal-fired units at the request of the UK Government – a significant matter that was considered at length by the Board of Directors. This helped to bolster the UK's energy security by providing a "winter contingency" service (October 2022 – March 2023) to the UK power system.

The Board recognised that the decision taken in 2019 to end coal generation was informed by the Group's purpose of enabling a zero carbon, lower cost energy future and the transition to a flexible, renewable generation model. However, in assessing the UK Government's request, the Board gave due regard to the impact of any decision on a range of stakeholders including the UK Government, National Grid, shareholders, colleagues, UK consumers more widely, and the environment, at what was a challenging time as a result of significant uncertainty and volatility across global energy markets.

You can read more about the Board's consideration of stakeholders in this decision within the Corporate Governance Report on page 107.

Supporting colleagues with the rising cost of living

For many of our colleagues, the rising cost of living is deeply worrying and we continue to work hard to offer support during this difficult time. Through feedback from our MyVoice Forums, colleague survey and the CEO's weekly Q&A, colleagues raised concerns about their ability to pay their energy and food bills. The Board and Executive Committee monitored the situation in each of the countries where we operate and discussed what our approach might be to best support colleagues.

Following these deliberations, the Remuneration Committee and management decided to bring forward the 2023 pay review from 1 April 2023 to 1 January 2023. The aim was to support colleagues by allowing them to benefit from changes to pay earlier in the year – specifically, during the winter period when energy bills are higher – and provide longer-term certainty. In addition, the 2023 pay review budget was significantly higher than prior years, (with average pay rises of 8% in the UK, US and Canada and 3% in Japan, reflecting inflation in each country).

With our external partners, we ran a series of Wellbeing Fairs at sites across our UK business, with the focus on mental, financial and physical wellbeing. We also offered virtual sessions with our new financial wellbeing partner, Nudge. These were available to all UK colleagues and included guidance on how to navigate the cost of living crisis.

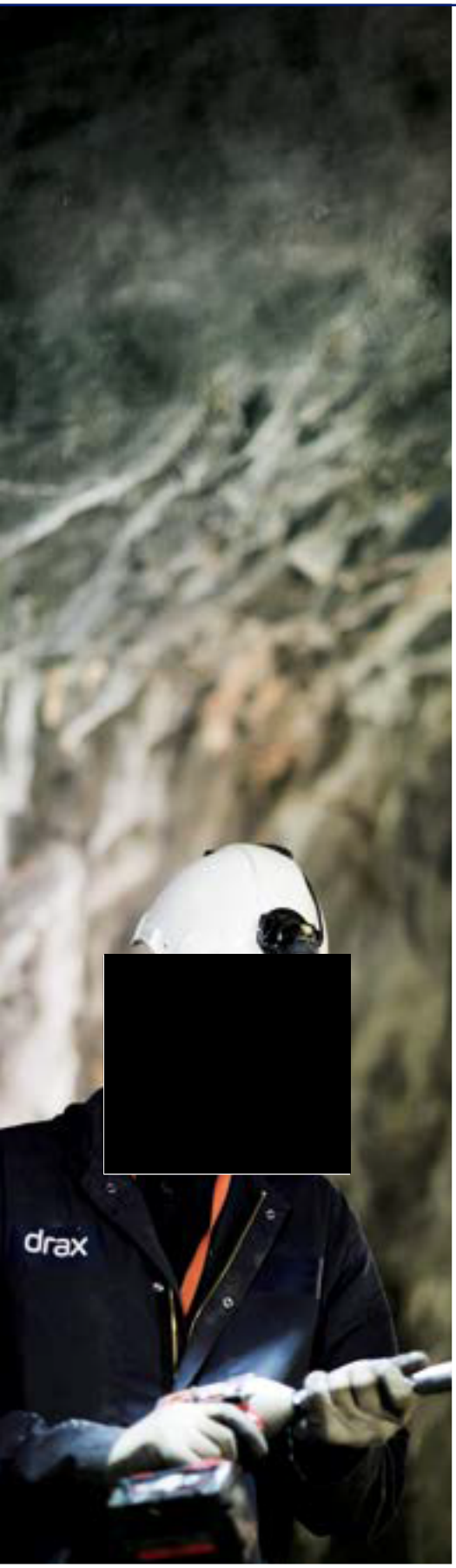
Engaging with experts

A key part of our engagement, and governance around responsible sourcing of biomass, is the Independent Advisory Board (IAB).

This is a body of scientists, academics and forestry experts who advise Drax on sustainable biomass and its role in the transition to more intermittent renewable energy and to net zero.

The IAB provides independent scrutiny, challenge, and advice. It makes recommendations on how we can improve various initiatives within our sustainability strategy, including our responsible sourcing of sustainable biomass.

You can read more about the IAB on page 39.



Engaging stakeholders in the expansion of Cruachan Power Station

During 2022, Drax engaged with the UK Government, the Scottish Government, environmental NGOs, and a range of other stakeholders. The aim has been to help unlock investment in new long-duration, large-scale electricity storage (LLES) projects such as the extension of Cruachan Power Station.

These interactions have led to several positive steps forward, including a grid connection agreement with National Grid from October 2030, and the submission of the project's Section 36 application to gain development consent from the Scottish Government.

As part of the Section 36 process, Drax held several exhibitions about the project to engage with, inform and hear the views of the local community. These sessions resulted in potential opportunities with local businesses. One example is a quarry that was interested in using the excavated rock and spoil from the Cruachan extension in the construction of new roads and tracks for wind farms.

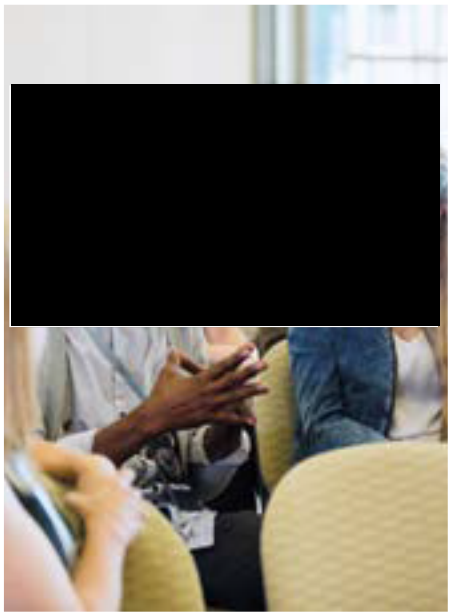
Following a Call for Evidence in which Drax participated, the UK Government committed to introduce a new financial stabilisation mechanism by 2024. This new policy framework will aim to de-risk investment in new-build LLES to meet the energy system's needs while also providing value for money for consumers.

During 2023, Drax will continue to work with other LLES developers and operators to engage with BEIS as it undertakes detailed design work. This work will assess the benefits and interactions of a new framework within the wider energy system.

Drax Foundation

Drax is committed to being a global force for good. In 2022, the Board approved a proposal to set up a global corporate giving model to support this vision. In 2023, we aim to launch the Drax Foundation, which will manage and distribute a fund for community investment and giving across the Group's core territories. Covering the UK, US and Canada, the Foundation will be under the governance of a new sub-committee of the Board. The Foundation will enable Drax to invest in larger-scale and longer-term projects in each of our territories, and to provide financial support and sponsorship to local community projects and charities. The Foundation will provide a tangible link to the Group's sustainability strategy. All projects will require an assessment to ensure they have the potential to deliver at least one of the following outcomes:

- Climate positive: Contributing to tackling the climate crisis
- Nature positive: Contributing to creating and maintaining thriving, sustainable natural environments
- People positive: Helping those most at risk in the transition to net zero to find sustainable, meaningful work and to support education



Engaging with Tŝideldel Biomass in Canada

Six Tsilhqot'in Nations live in British Columbia, managing nearly 6,000 square miles of land. Having lived there for thousands of years, they strive toward a balance between traditional and modern uses for the land, to sustain their communities and safeguard the natural environment. Their forests provide the resources for a modern economy, especially products like timber, pulp wood, and biomass. Their understanding of the best ways to support and protect the forests represents important learning for other users, including Drax.

"We've lived here for thousands of years, and First Nations have to be involved in forest management and decision-making. It has an impact on our communities, and we rely heavily on forest industries for employment and community wellness. We manage resources in ways that protect them and are meaningful to us culturally and spiritually. Supplying Drax with forest residues for biomass production is an important part of what we do."
Percy Guichon, Councillor, Tŝideldel

Tŝideldel Biomass was formed in 2018 to focus on biomass and hog fuel recovery from logging operations around Williams Lake. The company has two main clients: Drax for the biomass and Atlantic Power for the hog fuel. Tŝideldel Biomass has recovered close to one million cubic metres of fibre to date from forests destroyed by pine beetle and fire.

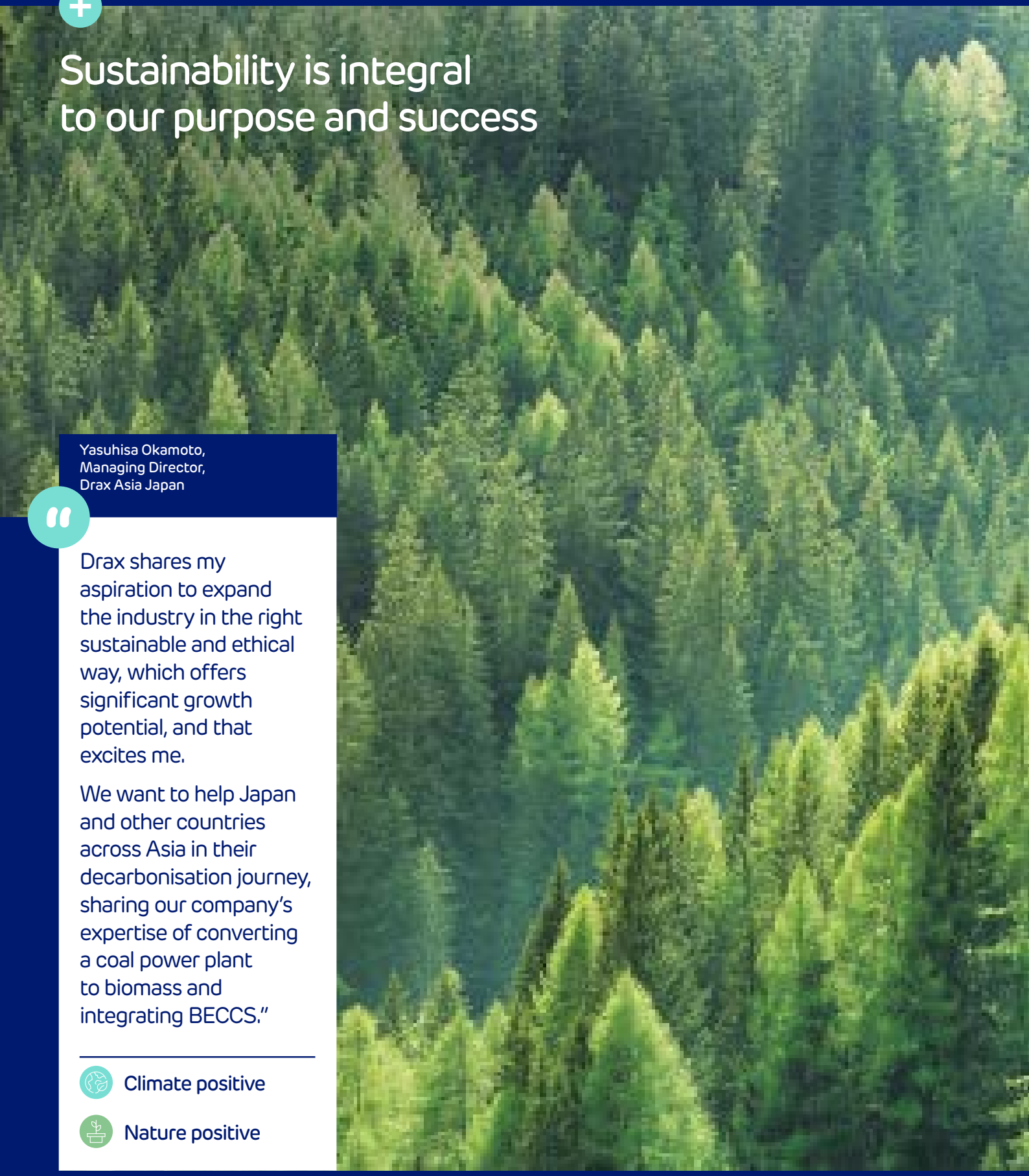
Drax management has worked closely with Tŝideldel Biomass to build the business-to-business relationship. In June 2022, our Board of Directors had the opportunity to tour the biomass operations in the field and to attend a reception afterwards. In October 2022, Drax Power Station hosted a visit by Tŝideldel Biomass representatives.

We hope to continue building our relationships with First Nations and to learn from local communities. This is a vital part of enabling a lasting legacy of nature positive and climate positive ways of working.

Find out more about this on page 44

Sustainable Development

Sustainability is integral to our purpose and success



Yasuhisa Okamoto,
Managing Director,
Drax Asia Japan

"Drax shares my aspiration to expand the industry in the right sustainable and ethical way, which offers significant growth potential, and that excites me.

We want to help Japan and other countries across Asia in their decarbonisation journey, sharing our company's expertise of converting a coal power plant to biomass and integrating BECCS."

Climate positive

Nature positive

Diane Nicholls,
Vice President of Sustainability
for North America

"One of the most important factors that attracted me to the role was Drax's vision to be a world leader in clean energy, using forest residues, while creating BECCS to sequester carbon emissions.

Drax's commitment to making a positive impact on the climate, nature, and people resonates with my own values. My aim is to advance sustainability in the natural environment through continuous improvement in forest management.

It's exciting to be part of a company that's growing rapidly while focusing on helping to support the global needs of people in a sustainable way. It was a real opportunity to further my passion for sustainability and be a part of a company that is working for the greater good."

Climate positive

Nature positive

Sustainability is at our core

At Drax, we believe that achieving positive outcomes for climate, nature, and people is key to delivering our business strategy. We are committed to creating a business model where financial performance, value creation, and sustainability outcomes are aligned.

I joined Drax seven years ago because I believe we can make a difference. Our purpose – to enable a zero carbon, lower cost energy future – has informed our achievements, sits at the heart of everything we do and underpins our commitment to sustainability. These are core values at Drax, and we will continue to implement them as we target our stated ambition to be carbon negative by 2030.

Will Gardiner, Chief Executive Officer

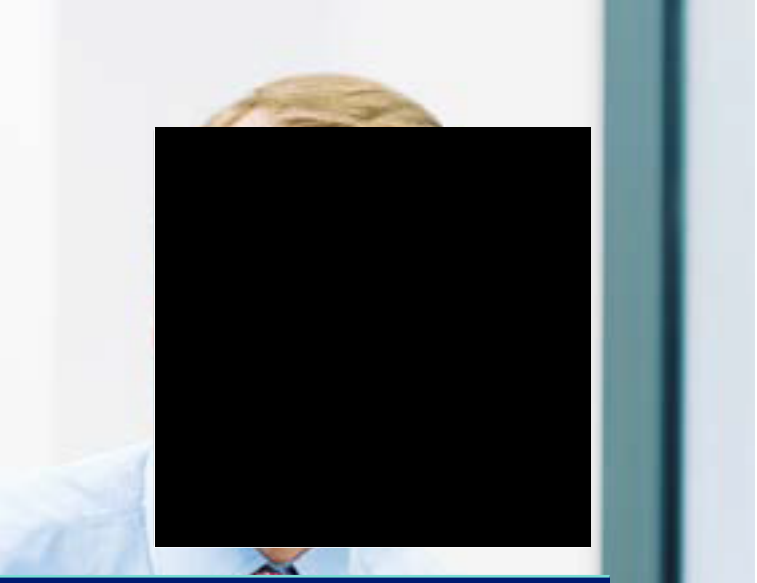
I have seen continued recognition and support from global leaders and policy-makers of the role that Drax can play in helping to limit global warming to 1.5° Celsius (C). That is underpinned by our objective to be a global leader in carbon removals, using our bioenergy with carbon capture and storage (BECCS) technology to help permanently remove carbon dioxide (CO_2) from the atmosphere. We continue to develop options for BECCS, which we believe could become a world leading, UK-led, exportable solution for large-scale carbon removals. The project is well developed, the technology is proven within the industry, and an investment decision could be taken in 2024, subject to the right investment framework, with a first BECCS unit operational in 2027 and a second in 2030.

Our ambitious plans are fundamentally shaped around the global sustainability agenda, whilst recognising our responsibilities to the local areas, communities, and stakeholders where we operate. Our sustainability framework: delivering positive outcomes for climate, nature and people reflects this and informs our decision-making across the business. This starts with ensuring that we use sustainable biomass that is underpinned by robust Environmental, Social and Governance (ESG) standards.

The world must act now to limit global warming to 1.5°C. Bioenergy has a vital role to play not only in generating the energy which powers our homes, schools, and businesses, while also delivering secure, dispatchable and renewable power, but also is a key contributor to achieving our climate targets.

In this section of the report, we explain how sustainability determines what we do at Drax, how it applies to our biomass sourcing and how we're progressing towards our ambition of being carbon negative by 2030.

> **The world must act now to limit global warming to 1.5°C. Bioenergy has a vital role to play not only in generating the energy which powers our homes, schools, and businesses, while also delivering secure, dispatchable and renewable power, but also is a key contributor to achieving our climate targets.**



BECCS done well

In 2022, Drax commissioned an independent study by Forum for the Future to convene a panel of experts (the High Level Panel) to assess the conditions for implementing BECCS in a manner which will make a positive contribution to climate change. The High Level Panel and its chair, Jonathon Porritt, published a report outlining their 30 conditions for BECCS done well. The report has been published and can be viewed on Forum for the Future's website.

"With such high concentrations of greenhouse gases already in the atmosphere, the only sustainable way of avoiding a cataclysmic outcome for humankind will be to draw down billions of tonnes of CO_2 back out of the atmosphere. Dealing with overshoot means Carbon Dioxide Removals – with billions of tonnes of removals and storage needed every year by 2050." – The High Level Panel on BECCS done well, November 2022.

As a company with ambitions to be a global leader in carbon removal technology, we are excited about the possibilities for BECCS. But Drax is about more than power generation. Our business model includes opportunities for the forests and communities where we operate, and for the role they will play in addressing the climate crisis. Drax welcomes constructive input and challenge on BECCS, and we want to continue working with stakeholders to ensure it is done well. That means delivering it to high standards, using strict governance and forest monitoring to ensure positive outcomes.

"BECCS will need to play a significant role in the world of Negative Emissions Technologies if we are to remain under or close to that 1.5°C temperature increase threshold." – The High Level Panel on BECCS done well, November 2022.

We have committed to formally respond to the recommendations in the study and we will work with our Independent Advisory Board (IAB) to implement the findings in our sourcing strategy.

What's inside

Introduction

Sustainability is integral to our purpose and success.

Find out more on page 38

Biomass Sourcing

Sustainably sourced biomass underpins our purpose: to enable a zero carbon, lower cost energy future.

Find out more on page 40

Climate Positive

Our purpose means Drax is investing to play a leading role in the UK's journey to a net zero economy.

Find out more on page 47

Nature Positive

We have put an emphasis on working in ways that respect, protect, and where possible add benefits to the natural environment.

Find out more on page 63

People Positive

Enabling our people to achieve our strategy is key to Drax achieving its ambitions.

Find out more on page 66

ESG Data Supplement
Please see the Drax website for our ESG supplement where you can find our ESG related disclosures

Introduction

Drax Sustainable Development Framework

By using sustainable biomass at its generation facility in Yorkshire, Drax continues to play a vital role in the UK's energy transition. Since announcing our Sustainable Development Framework in December 2021, we have made good progress against our sustainability outcomes – Climate Positive, Nature Positive and People Positive. Our progress has been underpinned by Group-wide ESG systems which sets targets, captures the required data, monitors and reports on progress and supports transparent disclosure.

Sustainability is integral to our purpose and success

Our purpose is to enable a zero carbon, lower cost energy future. We are committed to a sustainability strategy that identifies measurable and transparent objectives that have been developed by subject matter experts, scrutinised and adopted by our Board, and embedded within our wider business model. This means we adopt an integrated and sustainable business model which reflects the views and needs of stakeholders.

Sustainable Development highlights in 2022

- Continued embedding our Climate, Nature and People Positive strategy through our business
- Created our new Carbon Reduction Task Force, designed to give oversight, track our progress, and bring together all our emissions reductions plans.
- Implemented our ESG dashboard – allowing visibility of ESG metrics through the business (see below)
- Since 2006, we have hired 186 apprentices in total and have held a 91% retention rate of apprentices completing the programme (compared to a national average of 57.5% in 2020/2021).

Sustainability governance

The Board approves the Group's sustainability strategy which forms an integral part of Drax's overall strategic imperatives, and which together enable the realisation of our purpose. The CEO has overall responsibility for the implementation of that strategy. He regularly reports to the Board on progress in the delivery of key initiatives which form part of the Group's sustainability programme. The Group Director of Sustainability leads the implementation of the sustainability programme at Drax, reporting to the Group Director of Corporate Affairs, who is a member of the Executive Committee.

In 2022, a key area of focus was on establishing the ESG dashboard which ensures clarity on critical objectives, tracks the delivery and enables appropriate challenge on actual performance of the sustainability programme against those objectives. We have also worked on setting up specific groups which will have a contribution to make on aspects of our sustainability agenda. For example, we set up a new Carbon Reduction Taskforce which commenced in late 2022. The intention over 2023 is to further formalise these groups by the creation of a new Sustainability Council, chaired by our Group Director of Sustainability, which will undertake the review and challenge on progress, issues and developments in advance of reporting to the Executive Committee and Board.

Sustainability priorities

We identify the sustainability priorities that are material to our business and important to our stakeholders, as summarised in the Sustainable Development Framework below. In 2022, we commissioned a third-party to review our sustainability priorities to build and refine them. This work will be carried out and completed in 2023.

Sustainable Development Framework and our sustainability priorities

Climate Positive	Nature Positive	People Positive	Biomass Sourcing	ESG
• Carbon emissions • Climate risk and opportunity • Biomass supply chain emissions • Energy consumption	• Environmental pollution and impact • Biodiversity	• Employee turnover • Communities local to our sites • Safety, health and wellbeing • Skills and green jobs • Diversity and inclusion • Supply chain human and labour rights	• Forests and biomass acceptability • Responsible sourcing	• Business ethics and integrity • Executive remuneration • Fair and responsible products

Independent Advisory Board (IAB)

The IAB was established in 2019. Their primary role is to provide independent challenge, insight and advice on key aspects of the development and implementation of our sustainability strategy; provide scrutiny of our impacts on nature and climate; review and assess our sustainability-linked policies; and make recommendations on how we can improve our practices. Comprising scientists, academics, and forestry experts, the IAB is chaired by Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. Lord John Krebs, former member of the Committee of Climate Change, is the Vice Chair. The IAB's Terms of Reference and work programme were updated in 2022 to reflect their explicit focus on science.

The IAB provides the Drax Sustainability team, Executive Committee and Board with:

- Feedback on our sustainability strategy of Climate, Nature and People Positive outcomes and biomass sustainability. For example, in 2022 the IAB fed back on the structure of our new scientific evidence tracker and best practices for inclusion of scientific literature;
- Advice on feedstock options, sourcing decisions, and forest science including forest carbon accounting;
- Advice on standards, verification, and post-harvest surveys, ensuring that the science behind these projects is robust;
- Scientific advice on the role of biomass in our climate change mitigation activities and in supporting the transition to a net zero energy system.

During 2022, the IAB met five times and visited industrial and forestry sites in British Columbia, Canada, to learn more about Drax's business in the province.

The recommendations from each meeting are followed up by the Group Director of Sustainability on an agreed timeline. The IAB Chair and Vice Chair meet the Drax Board, with the most recent meeting being in September 2022. A summary of the IAB's activities and recommendations is published on the Drax website every six months.

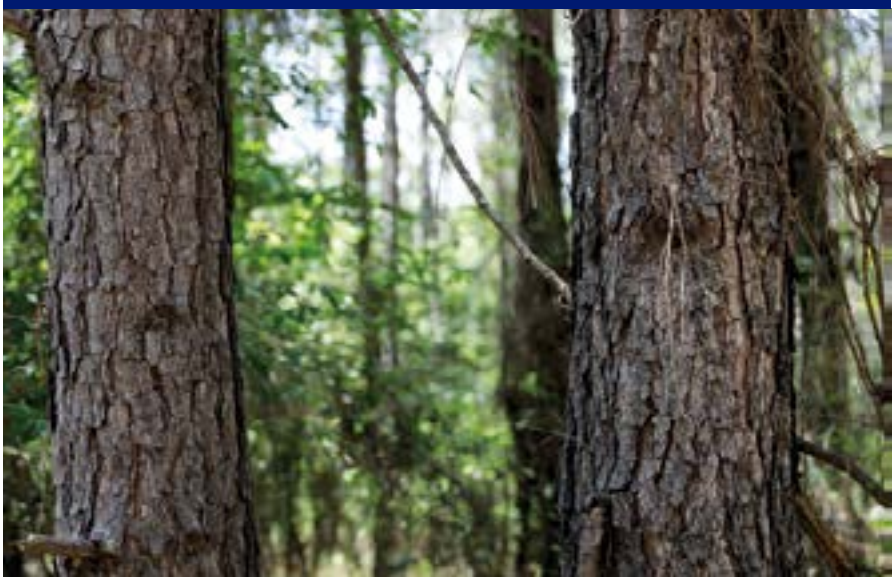
Highlight on:

IAB Chair, Sir John Beddington

"The Intergovernmental Panel on Climate Change (IPCC) and the UK's Climate Change Committee (CCC) recognise that sustainably sourced biomass can play an important role in meeting climate change targets. I decided to chair the IAB because it's vital that biomass is sourced sustainably and takes the latest scientific thinking into account.

As the science evolves, our recommendations will aim to ensure that the biomass used at Drax makes a positive contribution to our climate and the environment.

Although the majority of our advisory board meetings have occurred virtually, we intend to meet face to face more frequently in future. In particular, to visit the sourcing areas that Drax uses. I look forward to progressing our work programme with Drax and delving deeper into the company's sustainability strategy."



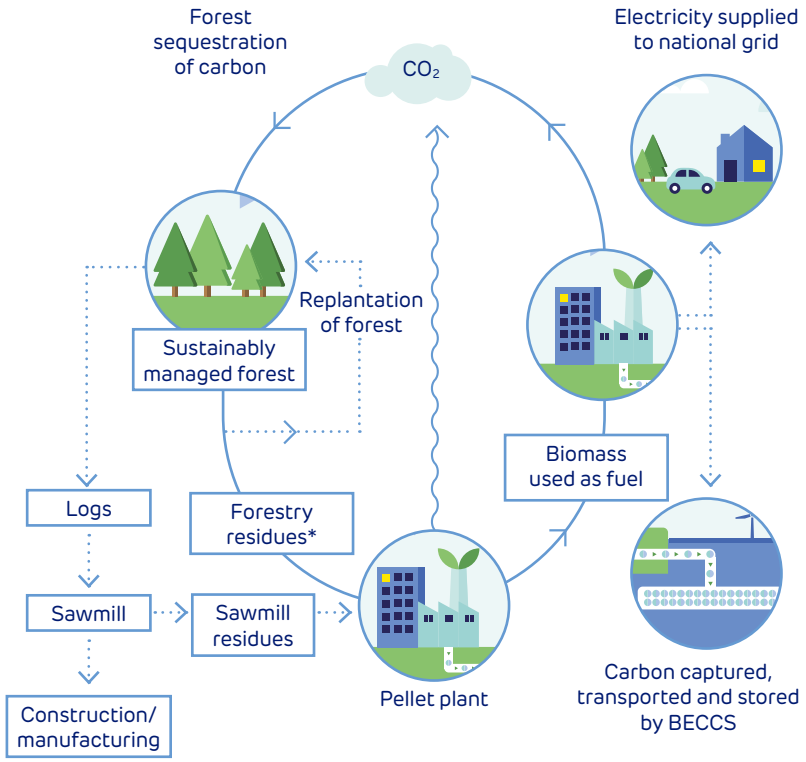
Biomass sourcing

Over the last two decades, Drax has developed the critical knowledge and capabilities in renewable generation and the development of a resilient global supply chain for wood pellets of the right quality that meet strict sustainability standards. And now, in 2022, 99.8% of our generation was derived from biomass, hydro and pumped storage, the balance being derived from legacy coal generation in January 2022.

Sustainable biomass is renewable when biomass is sourced sustainably because of the closed carbon cycle which is shown in the diagram opposite. This section provides details on biomass sustainability.

The CO_2 released from sustainable biomass operates within what is termed a biogenic carbon cycle. This is part of the continuous exchange of carbon between the land and the atmosphere.

Conversely, fossil-derived carbon is a one-way emission and all burning of fossil fuels adds to the accumulation of greenhouse gases in the atmosphere.



*includes low-grade roundwood

Sustainably sourced biomass underpins our purpose: to enable a zero carbon, lower cost energy future.

Drax has been working with biomass for over 20 years. We began co-firing biomass with coal in 2002 and completed our first full conversion of a coal unit to biomass in 2013.

As the world's largest user of biomass for energy, our Responsible Sourcing Policy (Policy), published on the Drax website, sets out the criteria by which we acquire our biomass for use at Drax Power Station. For us, this is biomass that will deliver positive outcomes for climate, nature and people. A report "Forest Research – Carbon impacts of biomass consumed in the EU" (available on our website) by Forest Research – the UK's principal organisation for forestry and tree-related science – identified sourcing practices that maximise the positive carbon contribution sustainable biomass can deliver.

Our sourcing choices are led by these recommendations. The biomass used at Drax Power Station complies with the standards set out in law, regulations, and our contract with the UK Government.

We are required to demonstrate, and assure to a limited level ISAE3000 standard, that the biomass we use at Drax Power Station is sourced against the UK's sustainability standards. The evolution and implementation of our Policy is informed by science and sets principles which go beyond existing UK regulations.

Our Policy, published in 2019, applies to the production of biomass by Drax managed facilities in the US South and biomass consumed at Drax Power Station, reflecting our business at the time. We recognise our duty to keep forests thriving, to respect the many benefits they bring as carbon sinks and areas of recreation, as well as their critical role in fostering biodiversity. We work with our suppliers to ensure the biomass we use contributes to the protection, and where possible, the enhancement of the natural environment.

Subsequent to our acquisition of the Pinnacle pellet business in 2021, we own and operate pellet production facilities in the US and Canada. We also have a pellet supply business where our customers operate under different sustainability standards to those for Drax Power Station. In the time since acquisition, we have challenged ourselves to implement our Policy across our global operations, reflecting the growth, development, and evolving ambition of our business.

In 2022, as we have continued work to increase the sustainability standards of our new Canadian assets, the Group has:

- Supported the development of an Alberta Sustainable Biomass Program (SBP) regional risk assessment, through collaboration with the Wood Pellet Association of Canada. The regional risk assessment process evaluates risk against the SBP indicators which will help us achieve higher quantities of SBP-compliant fibre for our Alberta and British Columbia (BC) operations.
- Announced our intention to build a new pellet plant and port facility in Longview, Washington, in the Pacific Northwest region of the US. Our movement into this new fibre basket will lead to detailed SBP risk assessments of the fibre sourcing area. Through this work we are enabling a greater proportion of SBP-compliant material.
- Developed more sophisticated systems and analytics to understand the fibre we source, which is helping to generate higher amounts of SBP-compliant fibre.

"Biomass is unique amongst renewable technologies in the wide array of applications in which it can be used as a substitute for fossil-fuel based products and activities, from power generation to hydrogen production and even new forms of plastics. Along with its ability to deliver negative emissions, this makes biomass one of our most valuable tools for reaching net zero emissions."

UK Energy White Paper (December 2020)

CDP DISCLOSURE INSIGHT ACTION B

Drax has been awarded a rating of B in CDP Forests 2022

Drax Group sources of fibre

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Waste (t)	Country total (t)
US	1,620,136	245,146	1,131,778	1,809,150	–	112,690	–	4,918,900
Canada	1,663,922	273,828	–	63,709	–	–	–	2,001,460
Latvia	176,007	664	131	556,978	–	–	–	733,780
Estonia	57,846	–	12,796	53,921	–	–	–	124,563
Brazil	214	–	–	144,069	–	532	–	144,816
Portugal	10,519	22,429	27,356	102,331	52	–	–	162,687
Belarus	24,807	–	–	647	–	–	–	25,454
UK	–	–	–	–	–	63,510	–	63,510
Russia	19	–	–	–	–	17,053	5,264	22,336
Other European	18,008	–	–	178	–	6,734	–	24,920
Total	3,571,479	542,067	1,171,062	2,730,982	52	200,519	5,264	8,222,425

Pellet Production sources of Fibre

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Waste (t)	Country total (t)
US	878,417	–	586,317	443,731	–	–	–	1,908,465
Canada	1,405,962	257,839	–	38,938	–	–	–	1,702,740
Total	2,284,379	257,839	586,317	482,669	–	–	–	3,611,205

Drax Power Station sources of fibre (material recieved at Drax Power Station)

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Waste (t)	Country total (t)
US	1,465,295	245,146	1,018,727	1,730,220	–	112,690	–	4,572,079
Canada	581,782	136,156	–	41,641	–	–	–	759,579
Latvia	176,007	664	131	556,978	–	–	–	733,780
Estonia	57,846	–	12,796	53,921	–	–	–	124,563
Brazil	214	–	–	144,069	–	532	–	144,816
Portugal	10,519	22,429	27,356	102,331	52	–	–	162,687
Belarus	24,807	–	–	647	–	–	–	25,454
UK	–	–	–	–	–	63,510	–	63,510
Russia	19	–	–	–	–	17,053	5,264	22,336
Other European	18,008	–	–	178	–	6,734	–	24,920
Total	2,334,498	404,395	1,059,011	2,629,984	52	200,519	5,264	6,633,722

Note: our 2022 data table shows a small volume of material from Russia and Belarus. This material was all delivered in January and February 2022. Following the start of the conflict, we ceased all trading of Russian and Belarusian biomass.

From forest to furnace: the controls and checks from source to Drax Power Station

The UK Government outlines sustainability criteria for organisations to qualify as a generator of renewable energy. Biomass must comply with the Land Criteria (which for wood pellets, sets out a range of measures for sustainable forest management) and the Greenhouse Gas (GHG) Criteria. The GHG Criteria is a limit set out by the UK Government, which ensures that the totality of emissions involved in Drax's biomass supply chain, represents significant GHG reductions compared to fossil fuels. The current GHG criteria for UK biomass is to ensure supply chain emissions do not exceed 200kgCO_2e/MWh electricity generated.

We must report monthly to the UK regulators, Low Carbon Contracts Company Limited (LCCC) and Ofgem on the amount of biomass used, the type of material used, where it came from and the GHG emissions from the supply chain. We must also confirm if the biomass complied with the Land Criteria. At the end of every compliance year, we must have an independent third-party assurance to assess the accuracy of the monthly reporting submitted through the year. This third-party assurance is against limited level ISAE3000 standards and is completed for the regulators of the UK subsidy schemes for biomass: Ofgem and LCCC. In 2022, a limited assurance covering the previous compliance period highlighted no material misstatements in our reporting.

For a company to demonstrate that it meets all the sustainability requirements of the Land Criteria, it can either use a voluntary scheme (like FSC®, PEFC or SBP – see box opposite for further details) or carry out its own checks and audits. Material delivered with a full FSC® or PEFC claim comes from forests assessed by an independent auditor, deemed to be responsibly managed, and compliant with UK sustainability requirements.

At Drax Power Station, to ensure we can identify and track material through our supply chain, we are certified against the FSC®, SBP and PEFC chain of custody requirements.

SBP-compliant material provides evidence that it came from a sustainable source. The SBP system accepts the assurance of responsible materials provided by FSC® or PEFC certification. Despite overlapping requirements, FSC® or PEFC certification does not cover all the criteria of SBP certification – and vice versa.

At Drax Power Station, 97% of the woody biomass used in 2022 was SBP-compliant, which evidences compliance with the Land Criteria. The remaining 3% woody biomass and the non-woody biomass we use is assessed to be compliant with the UK Land Criteria through our own programme of checks and audits.

To qualify for SBP-compliant status, all the pellet mills we source from need to trace the material they purchase back to the point of harvest. Also, they must be able to test if the material meets sustainability requirements. This can be done through the provision of FSC® or PEFC certification on the material, or through an additional programme of checks and controls. Drax purchases sawmill residues (chips and sawdust) and low-grade material from managed forests. For sawmill residues, checks must be in place to ensure that the sawmill's sourcing is in line with SBP requirements. All checks and controls are then assessed as part of the SBP audit at the pellet plant. The SBP standard stipulates for audits to be conducted on site. As a consequence of COVID-19 this stipulation was relaxed, as a result of which in the period of 2021/2022 some audits were conducted remotely. The ability to conduct remote audits ceased with effect from 31 December 2022. The auditors also select a sample of forest sites for audit, to ensure the controls are effective and processes are being followed. SBP audit reports are published annually on their website for all certified pellet plants.

The contracts for material received at Drax Power Station require that all material must comply with Drax's sustainability requirements. We maintain ongoing dialogue with all our biomass suppliers and operate a programme of supplier engagement to ensure compliance.

We also commission additional research on the areas from which we source in order to further understand the impact in these locations. See more on page 45.

Highlight on:

Forest Stewardship Council (FSC®)

Founded in 1993, this international non-governmental organisation promotes responsible management of the world's forests. Its certification system covers more than 200 million hectares of forest. (FSC® C119787).

Programme for the Endorsement of Forest Certifications (PEFC)

Founded in 1999, this global alliance of national forest certification schemes is an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification. (PEFC/16-37-1769).

Sustainable Biomass Program (SBP)

SBP is a certification system designed for woody biomass used in industrial energy production. Originally created by biomass generators, SBP has evolved and has had a multi-stakeholder governance structure since 2019.

Biomass feedstock sources at Drax

Fibre sources (%)

Sawmill residues	43
Branches, tops & bark	7
Thinnings	14
Low-grade roundwood	33
Agricultural residues	2

Biomass production and trading

Following the acquisition of Pinnacle in April 2021, which expanded our US pellet operations and introduced new pellet production facilities in Canada, we acquired a trading portfolio with customers to whom we supply biomass. These customers operate under different sustainability requirements to the UK regulators and Drax Power Station.

In the last two years, we have worked to further enhance our understanding of sourcing biomass from British Columbia and Alberta. Recognising the significant differences to the commercially managed forests in the US, we have facilitated a visit to our Canadian operations by the IAB, which made a number of recommendations (these can be viewed on our website), including improving the availability of evidence around our impact on climate, nature and people, and developing region-specific requirements that complement our global principles.

We remain committed to adapting and improving our sourcing practices in line with evolving science and our learnings from engagement with stakeholders.

As a minimum, we assess all fibre suppliers to our pellet mills under PEFC's due diligence review process. This ensures that all fibre sources are claimed as PEFC controlled sources. All our pellet mills are subject to an annual SBP audit, which assesses their sourcing and management systems against the sustainability requirements of the SBP Standards. In 2022, 97% of the biomass received at Drax Power Station was certified as SBP-compliant, with the remaining 3% assessed to be compliant by our own controls and verification. Not all the wood pellets produced at Drax pellet mills in North America are entitled to carry an SBP-compliant claim, however all pellets comply with the requirements of the customer to whom they are sold.

Highlight on:

Active forest management: thinning

Thinning removes some trees from a forest stand to improve the health and vigour of those remaining. Thinning operations target small, malformed or diseased trees for removal, allowing larger healthier trees to reach maturity sooner. Thinning also reduces the risk of pest infestation and wildfire while speeding the development of a more mature forest with increased plant diversity in the understory (the layer of trees and shrubs between the forest floor and its canopy).

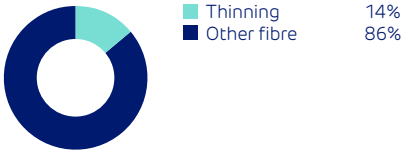
In the US South, the periodic thinning of a forest helps improve the size and quality of sawlogs when the trees reach maturity, the economic value of the timber produced and the carbon absorbed and stored, as well as forest health and biodiversity. In many cases, if forests were not thinned, the revenue from sawlogs would be reduced and landowners may consider other uses for their land, such as agricultural crops and livestock farming. The management of forestland to produce sawlogs ensures forests are growing vigorously, absorbing carbon, and forests remain a carbon sink.

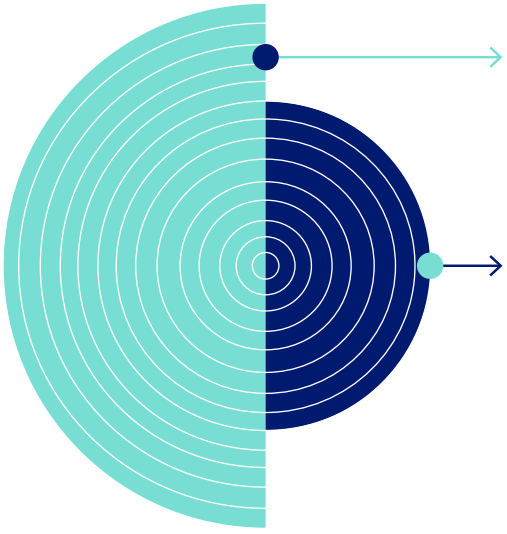
Thinning is the process of **periodically removing smaller, unhealthy, or malformed trees** to **reduce the density** of working forests.

Less competition for sunlight and nutrients **means healthy trees grow bigger** more **quickly**.

Younger trees in forests that have been thinned are **larger than older trees** in forests that haven't.

Fibre sources: thinning (%)





From a forest that has **been thinned twice**

21 years old

12.5" diameter

From a forest that has **never been thinned**

21 years old

7.5" diameter

Helping to ensure British Columbia's forests offer a sustainable source of fibre takes collaboration and careful management

As a business operating in the Canadian forest industry, predominantly in British Columbia (BC) and Alberta, we strive to work with local, provincial and national governments, communities, and First Nations. This will help to ensure the forests of BC and Alberta are sustainably managed, more resilient against the risks of pests and fire and preserved for future generations.

Canada's forests are some of the most resilient and sustainably managed in the world. They are subject to environmental regulation, careful management and third-party certification. BC and Alberta have vast forest resources and these forests are highly regulated by the provincial government to meet a series of conservation, environmental, and social objectives. Forest policies in Canada centre on the concept of sustainable forest management with the underlying goal of achieving a balance between the demands on forests for products and benefits, and the maintenance of forest health and diversity. The governments in BC and Alberta set the harvesting rules and annual harvesting rates for these forests.

Drax sources its biomass from well-established forestry markets mainly in the US and Canada as well as Europe. The main output from these markets is sawlogs, which are processed for use in construction and manufacturing, such as house building. When used in this way, these materials represent a source of long-term carbon storage and when the forest regenerates or is replanted these growing trees absorb carbon from the atmosphere.

In Canada, harvesting is carried out under regulated schemes often referred to as licences or tenures. Companies taking the higher value sawlogs are the principal industries for Canadian lumber and primarily hold harvesting rights. The remaining harvested material which is a by-product of the principal industries referred to above, and which previously had limited other markets, can be used to manufacture sustainably produced wood pellets. The licence or tenure holder manages the forest, ensuring that soil and water are protected, and harvested trees are replaced by ecologically appropriate seedlings. This work is done by forest professionals and is regulated by provincial regulations.

The wood pellet industry also supports the timber industry by utilising the sawdust and shavings which are a by-product from sawmills (and which represents almost 80% of our total volume into Drax Canada pellet mills) and the residues in the forest, such as undergrowth, branches and logs that are too diseased, twisted, or otherwise unsuitable for timber production.

Partnerships

Drax operates eight pellet mills across BC and two in neighbouring Alberta, which receive by-products from the lumber industry. We partner with companies that operate sawmills and have forest tenures that allow them to harvest certain forest areas. We obtain sawmill residues from these partners. The BC and Alberta governments identify the forest areas able to produce solid wood products, which lock in carbon for years. We work with a range of third-parties, including large commercial corporations and smaller community-based groups in protecting the land from which the wood and associated by-products are produced. Some of these partners include First Nations which have a deep association and understanding of the land and forests. For example, we work with Tŝideldel Biomass around the Williams Lake area (you can read more about this on page 33) and in 2023, we will be looking to increase our partnerships with First Nations within our operating areas.

Protecting forests from pests and fire

In three seasons between 2017 and 2020, BC saw catastrophic wildfires. Factors like climate change and storms are seen as contributing to the increased number of fires in the province. The intensity of the fires has been exacerbated by naturally generated debris left on forest floors, from relatively recent infestations from mountain pine beetles and other insects, or diseases affecting forest health.

To protect the forests from fires, pests and diseases, it is important to open them up through managed removals that create more space and less dense stands of trees and natural debris. It is also crucial to reduce what is left lying on the forest floor after forestry operations. This helps to create an eco-system which encourages biodiversity and soil health, and which enables flourishing habitat for flora and fauna. These sustainable management practices support the resilience of the forest, and the biomass collected from such activities can be used by businesses such as Drax for its sustainable power generation.

Catchment Area Analysis

Drax commissions independent Catchment Area Analyses (CAAs) in the regions from which we source. They test the forest carbon impact of our biomass sourcing, and we are committed to continuously improve the methodology of these studies as the science develops. Our CAAs are published on our website, with details of the independent body completing the work, the methodology used and their findings.

Completion of our CAAs is part of a rolling programme, and to date we have covered 58% of our sourcing (based on consumption at Drax Power Station in 2022). Through our rolling programme, we aim to complete the balance during 2023; activity which has been encouraged through both recommendations from the IAB and the Forum for the Future report, referenced on page 37.

As part of this work, we ask local experts to test if demand for wood pellets is causing the following issues, and to provide the evidence behind their conclusions:

- Deforestation and degradation
- Changes in forest management practice
- Unexpected/abnormal increase in wood prices
- Reduction in growing stock
- Reduction in sequestration rate of carbon
- Increase in harvesting levels above the sustainable yield capacity

All our CAA reports are published on our website where you can find full details. Where findings are inconclusive or indicate an impact, we investigate further.

For example, in Estonia, the researchers found a slight increase in wood prices and a slight increase in harvesting levels above the sustainable yield capacity. In 2017-2018, prices of all roundwood assortments (sawlog, pulpwood, fuelwood) increased notably, especially for exported pulpwood, however fuelwood price increases were less dramatic, suggesting that the price increase was not linked to the introduction of the biomass industry.

The data for Estonia showed that there were uncharacteristically low levels of harvesting between 2004 and 2011. The level of harvesting was then increased for the period 2011 to 2020. In 2018, harvesting was at the maximum sustainable level (the level which is set by the Estonian Government) due to increased sawmill capacity, high demand for pulpwood from Finland and Sweden, and improved demand for energy wood. The researchers described this as a temporary peak which had already slowed. We will continue to monitor trends in this area. SBP certification also provides helpful data on these trends, ensuring that our suppliers can demonstrate that feedstock harvesting does not exceed the long-term production capacity of the forest.

	% of Drax supply in 2022	Deforestation and degradation	Changes in management practice	Unexpected/ abnormal increase in wood prices	Reduction in growing stock	Reduction in sequestration rate of carbon	Increase in harvesting levels above the sustainable yield capacity
Alabama Cluster	4	No	Inconclusive	No	No	No	No
Amite BioEnergy	6	No	No/Inconclusive	No	No/Inconclusive	No	No
Burns Lake and Houston	3	No	No	No	No	No	No/inconclusive
Chesapeake	12	No	No/Inconclusive	No/Inconclusive	No	No	No
Enviva Cottondale	2	No	Inconclusive	Inconclusive	No	No	No
Estonia	2	No	Yes/Inconclusive	Slight Increase	No	Ambivalent impact	Slight increasing impact
Georgia Mill Cluster	6	No	No	No/Inconclusive	No	No/Inconclusive	No
LaSalle	7	No	No	No	No	No	No
Latvia	10	No	No	No	No	No	Inconclusive
Morehouse	6	No	No	No	No	No	No

Highlight on:

Clear-cutting

Clear-cutting is an important forest regeneration technique that supports sustainable forest management. It happens when most (or all) trees in an area are harvested simultaneously. It is a well-established forestry practice in many regions, including the UK, Europe and North America. Clear-cuts typically provide a range of forest products, with timber suitable for sawlogs used in the construction industries. Among this, there is usually some low-grade roundwood and forest residues suitable to make pellets.

The practice of clear-cutting is informed by science-based principles. It can be used to mimic wildfire and other forest disturbance in a planned and controlled manner. Clear-cutting is helpful for tree species that require full sunlight to regenerate and grow; it helps prevent forest degradation through competition which results in the more vigorous and shade-tolerant trees dominating. Clear-cutting creates open conditions that allow understory plants to get more sunlight, paving the way for an increase in pollinators and stronger forest regrowth. Over time, clear-cut areas regrow by replanting or natural regeneration, taking their place in a landscape mosaic of multiple forest stands at different stages of development. This continues the natural forest cycle.

Highlight on:

Frequently Asked Questions

1. What is biomass?

A. Biomass is organic matter (typically agricultural by-products and residues, woody waste products, and crops and microbes).

2. How is burning wood sustainable?

A. Biomass comes from organic, living matter that is in a cycle of growth and renewal, absorbing CO_2 from the atmosphere in the growth process. In the case of woody biomass, trees are replanted by the work of foresters and land managers who care for the land, to replace those which are removed within a regulated process that enables the forests to be sustained. When biomass is used to generate heat and/or electricity, CO_2 is released – and when new trees are planted as part of sustainable forest management, the new-growth trees absorb CO_2 from the atmosphere.

3. What is a sustainably managed forest and how is it sustainable if you are chopping down trees?

A. Sustainable forest management is defined in a number of different ways. At Drax, we follow the definition laid out in the UK Renewables Obligation 2015, which covers requirements including maintaining biodiversity, maintaining the health and vitality of ecosystems and maintaining the productivity of the area. These requirements set the standard that forest health is maintained for the long term, and even though forests may be harvested, trees are replanted in the right way, maintaining the long-term carbon stock of the forest.

Forest owners get the best value from growing, harvesting and selling a range of products. The harvesting takes place for multiple purposes, and the sawlogs provide the bulk of the income for forest owners. To track how the forests are growing and what they are being used for, we commission Catchment Area Analyses on targeted areas from which we source (see page 45). This evidence demonstrates that we are adhering to our responsible sourcing policy for the woody biomass used at Drax Power Station, by not causing deforestation, forest decline or negative impacts on carbon. Information about the health of these forests is available on our website.

4. What is sustainable biomass?

A. For biomass to be sustainable, it must first be sourced from forests which comply with sustainable forest management standards. Sustainable biomass uses residues from the wider forest industry where forest management and felling is used primarily for producing timber used for construction and furniture manufacture. The material we use to make pellets takes the by-products which are created from these industries, including sawmill and forest residues, and low-grade roundwood, left over when timber is processed, and which has little other use or market value.

5. How can it be sustainable if you are shipping the biomass from across the world?

A. In order to source low quality woody material, which has limited other uses, we source from regions across the world that have large areas of forestry and active forest industries, leading to a higher availability of residue material – either sawmill residues (created as a by-product of sawmilling), or forest residues (low-grade material created as a by-product of harvesting or forest management operations).

For biomass to be considered low carbon, we must ensure that we account for the emissions created through the full supply chain (from forest, through all modes of transport including shipping, to Drax Power Station). We conduct this calculation for all the biomass delivered to Drax Power Station and ensure that when the emissions are totalled (including that associated with all transit including shipping), they still constitute a significant saving compared to fossil fuels. This process is defined by, and required by, UK regulations. See more on this in our climate section, on page 48.

6. Does burning biomass produce more emissions than burning coal?

A. Combustion of biomass produces similar levels of CO_2 to coal. However, unlike coal, sustainable biomass does not add additional CO_2 to the atmosphere. When sourced sustainably, biomass is in a constant cycle of renewal and carbon absorption across a landscape, ensuring that at least as much carbon is removed from the atmosphere to the amount emitted at the stack. Conversely, burning coal releases carbon that has been locked up for millions of years, increasing the amount of new carbon accumulated in the atmosphere.

Highlight on:

Bioenergy creates an opportunity

"If left to nature, much of British Columbia's forests would experience frequent, low-grade fires to maintain the natural ecosystem. These natural "maintenance" fires are being suppressed, resulting in unnaturally dense forests, with high surface fuel loads – inviting this surge in catastrophic wildfires with significant emissions"

Source: 'Adding value to waste', The ForestLink (Note: Shauna Matkovich from The ForestLink sits on our IAB)

Climate Positive

Our purpose – to enable a zero carbon, lower cost energy future – means Drax is investing to play a leading role in the UK's journey to a net zero economy. In December 2019, at COP25 in Madrid, we set an ambition to be carbon negative by 2030.

We are committed to the management and disclosure of climate change risks and opportunities in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

See our TCFD disclosure on page 52

Global context

Introduction by Dr Alan Knight – Group Director of Sustainability

In October 2022, following a review of emissions reduction targets and progress to date, the UN warned there was no credible pathway to keep global temperature rise under 1.5°C. Society, governments, businesses and all of us must act now to address the climate crisis and limit global warming to this target: 1.5°C above pre-industrial levels.

Playing our part in mitigating climate change by staying below an increase of 1.5°C is at the heart of our business at Drax. We have transformed from being a company using coal to one predominantly using sustainable biomass and hydropower. We not only generate renewable energy, we also have ambitions to become carbon negative using BECCS. As the Group Director of Sustainability, I'm excited and proud of this ambition.

Research by the Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate science, states that carbon dioxide removals (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

The illustrative mitigation pathways assessed in the IPCC's 2022 report use significant volumes of CDRs, including BECCS, as a key element for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero targets. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

Drax is continuing to develop options for BECCS projects both in and outside of the UK. See more on our plans for BECCS on page 12. Delivering these emission reductions and tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas.

What is our approach?

A purpose, strategy, and ambition that places climate change at the heart of what we do

Our purpose informs the three pillars of our strategy:

1. To be a global leader in carbon removals: By pioneering BECCS at Drax Power Station and developing BECCS opportunities globally.

2. To be a global leader in sustainable biomass pellets: A lower cost biomass supply chain with the potential for carbon negative generation.

3. To be a UK leader in dispatchable, renewable power: A portfolio of dispatchable flexible assets to support the energy system's growing use of intermittent renewable energy.

Our Climate Policy, updated in 2022, outlines our approach and follows the TCFD framework of disclosing Governance, Strategy, Risk Management, and Metrics & Targets. Read our Climate Policy in full on our website, under Compliance and Policies.

Our targets

Our emission reduction targets for 2030 (using a baseline of 2020 data): awaiting validation by the Science Based Targets Initiative

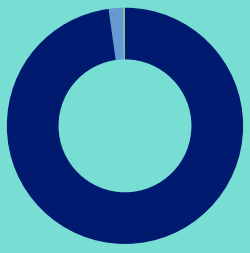
75%
in Scope 1 and 2 emissions from electricity generation by 2030

42%
in non-generation Scope 1 and 2 emissions by 2030

42%
in Scope 3 emissions by 2030

Find out more on page 62

Power generation mix in 2022
(% total output)



Biomass	97.8
Hydro	2.0
Coal	0.2
Thermal	0

Sustainable Development continued
Climate Positive

Climate positive by being carbon negative

At Drax, we have set an ambition to be carbon negative by 2030 by removing more carbon from the atmosphere than we produce (Scope 1 and 2), helping the UK achieve its net zero target. By then, BECCS at Drax could deliver up to 8Mt of CO_2 removals a year. This would deliver over 15% of the carbon removals the UK requires to achieve net zero by 2050, according to figures provided by the CCC in their 2019 Net Zero Report.

We are also developing opportunities for global BECCS, principally in North America, where we are targeting 4 Mt of carbon removals by 2030. See more about our Global BECCS plans on page 12.

Since 2012, the Group's actions have reduced our generation scope 1 and 2 carbon emissions by c.99%.

We aim to achieve our ambition of being carbon negative by 2030, by reducing our emissions as far as possible Group-wide, while using removals delivered through BECCS to neutralise our remaining emissions. In doing so, we will also support the UK Government and other businesses to achieve net zero carbon emissions. We are committed to the Science Based Targets initiative (SBTi) and have submitted our targets for validation. To align with our SBTi targets, Drax set a new baseline for our carbon emissions data, to ensure comparability to our 2020 base year.

To make sure our activities continue in line with science, our decarbonisation strategy aligns with IPCC scenarios. These limit global warming to a maximum of 1.5°C above pre-industrial levels, with low or no overshoot. They also consider the necessary role of bioenergy and BECCS in delivering credible decarbonisation pathways.

Please see more details on our climate related work in our TCFD section, starting on page 52, including metrics and targets on page 60.

Forest carbon

While biomass is zero rated under IPCC rules (see diagram on page 49 for an explanation), Drax has closely followed the science which underpins this position. We recognise that biomass is only low carbon (or better) if it meets certain sustainability criteria and we have developed our Responsible Sourcing Policy on this premise. We have followed the science of forest carbon for many years and reviewed multiple approaches of modelling forest carbon. We have also commissioned our own studies and assessed the potential for the use of remote sensing (using satellites to scan forest areas) to provide data on forest carbon.

In 2022, we contributed to the development of the Greenhouse Gas (GHG) Protocol "Land Sector and Removals Guidance" led by the World Resources Institute (WRI). This included involvement in the discussions and the drafting work surrounding the CO_2 removals accounting framework, land management removals criteria, and product storage accounting. We began piloting the guidance at the end of 2022, with a view to completing a full forest carbon inventory of our biomass once the final guidance is published in 2023. Being involved with the GHG Protocol's project and piloting is key to our forest carbon work. We believe we should not only rely on biomass certification schemes and our own due diligence when sourcing biomass – we should also consider quantified impacts on forest carbon.

We have also continued our investment in research addressing causality with a team of academic researchers in the US South. This research includes assessing what forest catchment areas may look like if we did not source from them, to better understand the impact that biomass sourcing can have. The research uses economic modelling to establish relationships between the biomass demand we create, and landowner responses to meet that demand, in the US South. We commit to continuing to stay close to the science and how it can inform best practice in safeguarding forests in this area.

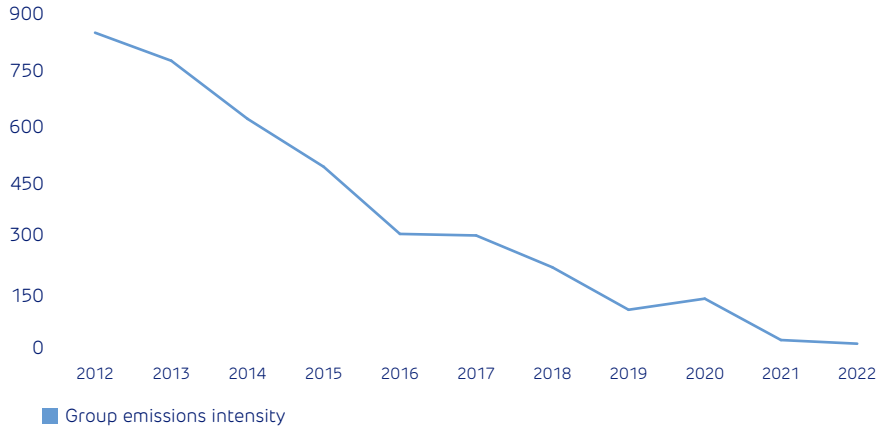
Energy and carbon reduction initiatives

At Drax, we are continuously monitoring energy efficiency and saving measures to reduce our carbon footprint. One of the initiatives we started in 2022 was at our Cruachan Pumped Hydro station in Scotland.

At Cruachan Power Station, Unit 3 is contracted to the National Grid ESO to provide system inertia (stability) services, such that it runs 24 hours a day, synchronised to the grid. In doing so, the unit enables more intermittent forms of zero carbon non-synchronous generation, such as wind, onto the electricity transmission system. To remain synchronised, the unit consumes around 2MWh of power. It is currently contracted to provide this service until 2026.

In 2022, an energy saving project was initiated to explore ways to reduce the power consumption in this operating mode. Studies are focused on the generator windage losses to reduce heat losses and therefore power consumption to cool the generator and stator. This project is due to present its findings in 2023 and any changes to reduce power consumption will be monitored during 2023.

Group emissions intensity (tCO_2e/GWh)



Other examples of energy and carbon reduction initiatives we have kickstarted in 2022 include:

- within our air conditioning units at Drax Power Station, we are using more environmentally friendly gas, allowing better efficiency
- upgrading to more energy efficient pumps for the Heating, Ventilation, and Air Conditioning at Drax Power Station
- signing a Memorandum of Understanding with Japanese shipping company MOL Drybulk to reduce emissions associated with shipping biomass by deploying technologies such as wind assistance from sails on vessels.

In 2021, we completed the third in a series of three high-pressure turbine upgrades on biomass units 1-3 at Drax Power Station.

Biomass supply chain emissions

Biomass can only be considered a low carbon, renewable energy solution when certain evidence exists. The evidence must show that the savings of GHG emissions are delivered on a lifecycle basis, compared to alternatives such as fossil fuel generation. Therefore, we collect fuel and energy data for each step within the supply chain. This enables us to calculate lifecycle GHG emissions for our biomass and demonstrate compliance with regulatory requirements.

The UK Government has set a limit on biomass supply chain GHG emissions, which is currently 200 $kgCO_2e/MWh$ of electricity. Generators must meet this limit to be eligible for support under the Renewables Obligation and Contract for Difference schemes. In 2022, our average biomass supply chain GHG emissions amounted to 96 $kgCO_2e/MWh$ of electricity.

In 2020, we launched our Biomass Carbon Calculator, a GHG lifecycle emission tool designed to improve the accuracy and transparency of reporting emissions for wood pellet supply chains. It accounts for material sources of GHG emissions, including categories absent from other UK reporting tools. These categories include methane and nitrous oxide emissions arising from fuel combustion. The calculator has been externally verified against UK and EU regulations, and the calculator and the verification statement are available on our website, under Sustainability, Sustainable Bioenergy.

We are further investigating decarbonisation pathways for our biomass supply chains to ensure emissions are reduced at a rate consistent with limiting global warming to 1.5°C above pre-industrial levels.

Biomass carbon accounting:

Biomass emissions are counted in the Forestry and Other Land Use (AFOLU) category.

IPCC guidance calculates all biogenic carbon emissions and removals from changes in land-based carbon stocks (like crops, soil and forests) in this way.

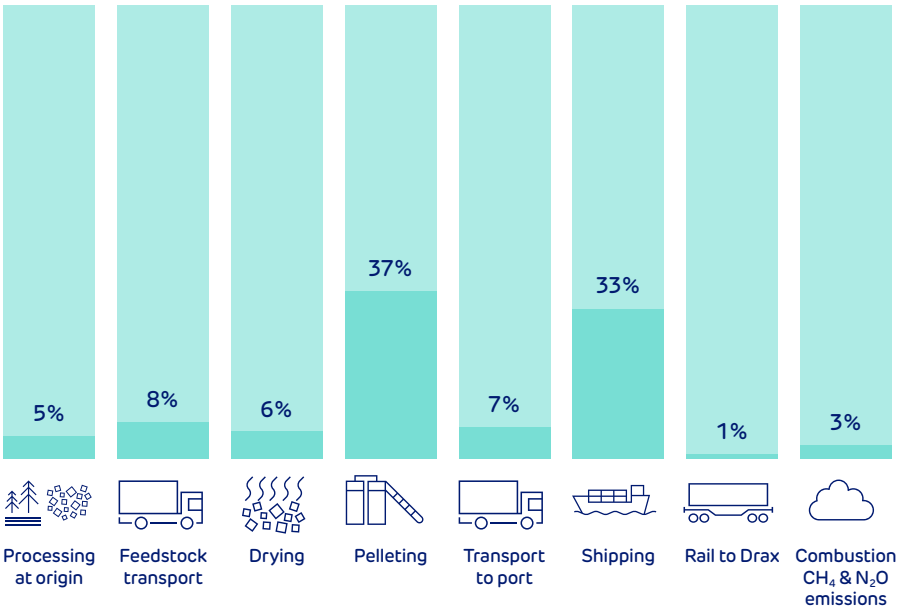
It helps to ensure that lands are managed sustainably to mitigate against climate change and meet Paris agreement goals.

Because biomass is accounted for in the land use sector, the IPCC rates CO_2 emissions from biomass as zero in the energy sector.

CH_4 ,N_20 and other emissions from biomass are included in the energy sector.

Drax Power Station biomass supply chain GHG emissions in 2022 (%)

	Unit	2022	2021	2020	2019	2018	2017
Average biomass supply chain GHG emissions	$kgCO_2e/MWh$	96*	100	109	124	131	130



Note:
Includes the biomass supply chain associated with both Drax's direct operations (Pellet Production business) and third parties. This is an estimate based on the average carbon footprint of pellets received at Drax Power Station for each stage in the biomass supply chain.
*Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000.
For assurance statement see the Drax website, under Sustainability, Our Approach.

Sustainable Development continued
Climate Positive

Environmental management

Approach and governance for environment

Our Group-wide Environment Policy, which can be found on our website, outlines our ongoing commitment to manage, monitor and reduce the environmental impacts caused by our business through continual improvement of our operations. It also sets our commitments to minimising the adverse impacts of our operations on biodiversity. Each month, we report internally on environmental incidents and near misses, and the Board receives regular updates as part of the CEO report. We respond to, and track actions taken from, substantiated environmental complaints made in relation to our operations. We also investigate environmental incidents in relation to our operations (e.g., waste spillage or near-miss contamination event) to establish root causes and learn the appropriate lessons, which we then share across the business.

Environmental Management Systems

During 2022, the environmental management of our Generation assets was certified to ISO 14001:2015 and these assets continue to be subject to regular external verification.

Environmental compliance

Drax recognises the importance of establishing open and direct partnership with the local environment agencies in the areas in which we operate. We provide further information on environmental compliance matters below.

- At Daldowie, we continue to identify and mitigate potential sources of odour. We have completed work to enclose the skips which store the waste product processed at site and signed a contract to construct a new 50-metre chimney stack (due for completion in 2023). We continue our dialogue with the Scottish Environment Protection Agency (SEPA), keeping them informed about our actions. In 2022 no substantiated complaints about odour were received.
- Air emissions tests conducted by Drax subsidiaries Morehouse BioEnergy LLC (MBE) and LaSalle BioEnergy LLC (LBE) in 2018 and 2019, respectively, demonstrated that volatile organic compounds (VOCs) from certain sources at the facilities were higher than indicated by previous tests and exceeded the VOC emission limits in the applicable air permits. MBE and LBE reported the test results to the Louisiana Department for Environmental Quality (LDEQ). Both MBE and LBE introduced technology at the plants to improve emissions in accordance with schedules of compliance approved by LDEQ. In August 2020, the construction and start-up of a regenerative catalytic oxidizer (RCO) was completed at the MBE facility. In February 2021, the construction and start-up of an RCO was completed at the LBE facility. These air permit exceedances and other alleged violations were the subject of various enforcement actions brought by LDEQ against MBE and LBE. In 2022, MBE and LBE finalized settlement agreements with LDEQ relating to these air permit exceedances and other alleged violations, and each entity paid $1.6 million in settlement to LDEQ. There are no pending enforcement actions against MBE or LBE related to the past air permit exceedances. As stated, MBE and LBE have completed the installation of the new RCOs at each facility to reduce emissions and continue to monitor for any potential non-compliances.

During 2022, the environmental management of our Generation assets was certified to ISO 14001:2015

Environmental management

	Unit	2022	2021
Emissions to air			
Nitrogen oxides – power generation	t	5,979	7,556
Sulphur dioxide – power generation	t	403	1,087
Particulates – power generation	t	376	448
Nitrogen oxides – pellet production	t	836	386
VOCs – pellet production	t	854	1,202
Particulates – pellet production	t	1,354	193
Water use			
Total water abstracted – power generation(1)	m^3	51,899,818*	64,140,878
Total water returned – power generation	m^3	47,187,916*	57,616,803
Total water abstracted and returned – hydro generation(2)	m^3	3,389,452,345*	3,005,380,954
Total water abstracted from reservoir – pumped storage(3)	m^3	361,145,582*	261,791,757
Total water abstracted from Loch Awe – pumped storage(4)	m^3	325,844,996*	249,155,337

Notes:
For Pellet Production other emissions to air for 2021 data are reported for Drax Biomass plants only: La Salle, Morehouse and Amite. Our 2022 data reflects 17 pellet mills under operation, as opposed to 3 pellet mills in 2021.

"Total water abstracted" covers water data reported to the Environment Agency (EA) and Scottish Environment Protection Agency (SEPA) as abstraction.
(1) 2022 Power Generation covers Drax Power Station
(2) Hydro generation covers Galloway and Lanark Hydro Scheme
(3) Pumped storage covers Cruachan Power Station
(4) Excluding volume of water collected via the aqueduct system

*Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Emissions to air

Drax Power Station is required to comply with UK laws and regulations which limit emissions to atmosphere. New standards came into effect in August 2021 under the Industrial Emissions Directive and Large Combustion Plant Best Available Techniques Reference Document (BREF) which sets limits for emissions. 2022 was the first year of operation under the annual emission limits for biomass.

Our operations in the US and Canada which manufacture biomass pellets are also subject to laws and regulations which limit emissions to atmosphere and set requirements on the level of self-monitoring and reporting which is required to be undertaken.

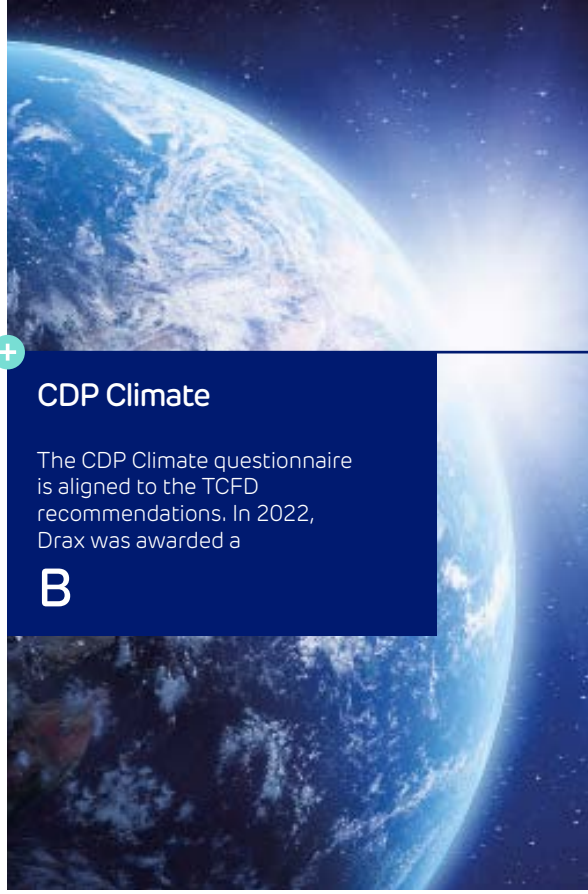
Water use

The use of water is subject to strict criteria, compliance with written procedures and also UK, US and Canadian laws. That compliance is overseen internally by the HSE teams and externally by the local regulatory agencies.

Drax Power Station uses water for operational and cooling processes, the volumes of which are shown in the table above. A primary use for the water at Drax Power Station is when it is heated to produce steam at very high pressure which is used to power the turbines that generate the electricity. Of the water used a proportion is emitted as water vapour, through our cooling towers. The remainder is recycled and discharged under permit to the local river. In line with our permit requirements, procedures are in place to manage water system efficiency and usage – ensuring we meet all discharge consent limits. Compared to 2021, our total water abstracted for generation decreased from 64,140,878m^3 to 51,899,818m^3 – once again, this was related to the operational position (i.e. MW produced) for 2022.

In 2022, we diverted 3,389,452,345 m^3 of water from river systems to run through our plants before being redirected back into the river for hydro generation at the Galloway and Lanark Hydro Scheme.

At Cruachan Power Station (our pumped storage facility), we generate electricity by allowing water to fall from Cruachan dam down through four turbines which generate electricity at times of demand for power from business and consumers. The water flows through the turbines before being directed into Loch Awe. At times when demand from business and consumers falls, there is excess power on the grid. We use the excess power to pump water from Loch Awe into the upper reservoir at Cruachan dam. We closely monitor the arrangements for the cycling of this water and report to SEPA as required.



CDP Climate

The CDP Climate questionnaire is aligned to the TCFD recommendations. In 2022, Drax was awarded a

B

Task Force on Climate Related Financial Disclosures (TCFD)

Introduction

Compliance Statement

Drax recognises the importance of climate considerations, and specifically the matters of physical and transition risks arising from climate change. To manage these risks, we are committed to taking affirmative actions to meeting the Financial Conduct Authority's Listing Rule 9.8.6(8)). This will be our third year of providing dedicated disclosures against the TCFD framework. The financial year to 31 December 2022 represents the first year in which Drax has been required to respond to the recent additional disclosure requirements under the TCFD Annex and Guidance, published in October 2021. The additional requirements provide for greater transparency and incorporate new areas for assessment which by their nature are complex. Drax has sought to integrate these new requirements into its business methods and reporting, whilst recognising that, given the complexity, in this first period of reporting we are, like many stakeholders, evolving our understanding of the best approaches, methodology and standards. Accordingly, whilst we consider the information provided to be responsive to the new requirements, we are of the view this will require further refinement and improvement. Therefore, we believe that full consistency with the TCFD requirements has been attained for nine out of the 11 recommendations in the reporting period. We consider the disclosures to be partially consistent with the recommendations for cross-industry metrics and targets (recommended disclosures "Metrics and targets a) and c)"). We believe our cross-industry metrics currently lack the level of specificity required to meet the threshold for full consistency. Over the coming year, we intend to evaluate appropriate targets and evolve our business methods, and our approach to metric reporting. This should enable us to increase the level of specificity we are able to provide on these disclosure requirements. Our objective is to confirm that the 2023 Annual Report and Accounts is consistent with the current TCFD recommendations.

Our Approach to Disclosure

At Drax, being at the forefront of combatting the physical and transition risks of climate change is consistent with our purpose and business model. Drax has therefore presented its approach towards disclosing the physical and transition risks of climate change and their potential impacts upon the business throughout this section, but additional relevant information can be found throughout the Annual Report and Accounts.

An overview of our progress against the framework is disclosed by sections as categorised under the TCFD recommendations (Governance, Risk Management, Strategy, Metrics and Targets). The TCFD Summary cross-reference table is presented below.

4 TCFD pillars	11 TCFD recommended disclosures	Reference
Governance	1. Describe the Board's oversight of climate-related risks and opportunities	Page 53. Corporate Governance, page 94
	2. Describe management's role in assessing and managing climate-related risks and opportunities	Page 53. Principal Risks page 89
Strategy	3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	Pages 56-57 Strategic report pages 2-9 and Principal Risks page 89
	4. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning	Pages 56-57. Strategic report pages 2-9 and Viability Statement page 75-76
	5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 54-55
Risk Management	6. Describe the organisation's processes for identifying and assessing climate-related risks	Page 53-54, Principal Risks page 77-81
	7. Describe the organisation's processes for managing climate-related risks	Page 54, Principal Risks page 77-81
	8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Page 54, Principal Risks page 77-81
Metrics & Targets	9. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Metrics, page 60
	10. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks	Metrics, page 61
	11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Targets, page 62

Climate-related financial disclosure

Governance

Board and executive-level oversight of climate-related risks and opportunities

The Drax Board has ultimate accountability for all climate change risks and opportunities. The Board meets regularly and is supported through the existing governance structure which manages climate change risk on a day-to-day basis. Please see the Corporate Governance report on page 94 for greater detail.

The Group has developed a Climate Policy, published on our website, that is annually reviewed and approved by our Executive Committee. The Policy outlines our approach to integrate the management of climate-related risks and opportunities into everyday decision-making and delivery of our business strategy. Responding to climate change is a core component of the Group's purpose, and this is reflected in our governance. Climate Change is one of our Principal Risks, and so is subject to a six-monthly "deep dive" review by our Executive Committee.

In 2022, the CEO commissioned a new Group Carbon Reduction Task Force, which includes Senior Leaders from across the organisation that will track and report on current and future projects required to decarbonise our current and future value chain. In addition, the Board have allocated a significant weighting for decarbonisation targets to the 2023 Group Scorecard, in order to align the objectives and incentives of the operational business areas with our decarbonisation targets.

The Board	• Reviewed the Climate Change Principal Risk • Agreed the Climate Positive strategy • Reviewed the Climate Policy • As part of the approval process for climate change opportunities, the Board reviewed proposals for investing in construction of additional pellet production capacity, including the carbon and environmental related design requirements
Audit Committee	• The Audit Committee has responsibility for overseeing risk and risk management, which includes climate change risk. Climate risk disclosures are reviewed twice each year
Remuneration Committee	• Reviewed and approved targets for developing ESG dashboards (as part of the 2022 scorecard), which includes climate metrics • Reviewed and approved the adoption of a KPI for the development of a blueprint for an ultra-low carbon pellet mill in the 2022 scorecard. • Agreed an emissions reduction target for the 2023 scorecard
Executive Committee	• Reviewed and contributed to progress in establishing ESG dashboards, including an assessment of the data capture, interpretation, and reporting • Reviewed and agreed our approach on the shadow price of carbon • The CEO reviewed and signed off our annual submission of the CDP Climate Change questionnaire. • Performed a deep dive of the Climate Change Principal Risk and assessed the potential impacts on the Group's business outcomes.
Carbon Oversight Group (COG)	• In early 2022, COG provided a forum for the review of climate-related risks. • COG comprised a group of experts in climate matters across the Group and people in roles with direct impact on our carbon performance. Both in the formal COG and outside of the group, these members help manage our day-to-day progress on climate related matters. • COG members managed the Climate Change Principal Risk.

Assigning senior management accountability for climate change risk

We have assigned key accountabilities on environment and climate change to ensure a clear understanding of ownership throughout the business and at the executive level. Accountability for the Group's climate and broader sustainability positioning (including the Climate Change Principal Risk) is assigned to the Group Director of Corporate Affairs, as delegated by the Executive Committee. The Group Director of Sustainability reports directly to the Group Director of Corporate Affairs and monitors the day-to-day risk management of our climate change Principal Risk.

These accountabilities include the implementation of:

- Identification, measurement, monitoring and reporting of the financial risks of climate change in line with TCFD recommendations
- Scenario analysis (for physical and transition risks) to determine long-term financial risks that could impact the balance sheet
- Disclosing the financial risks of climate change
- ESG reporting and performance (the Drax sustainability strategy and key performance metrics)
- A governance framework to ensure leaders and wider colleagues understand the climate-related risks and opportunities

See more details on Governance in these sections:

Diagram showing how risk reports up to the Drax Board 77

Corporate Governance Report page 94

Directors' Remuneration Report page 127

Principal Risks and Uncertainties page 77

Our progress against TCFD recommendations

TCFD pillar:

Governance

Actions for 2022	Progress in 2022	Actions for 2023
Consult the Board and Executive Committee on internal carbon targets and carbon reduction plans and agree KPIs against which the Board and external stakeholders can assess our progress. Work with the Board and Executive Committee on the creation of a new Sustainability Council that will oversee climate-related risks and opportunities.	The Board and Executive Committee were consulted on several climate-related matters (details in the previous table). At the end of 2022, we planned our new Sustainability Governance approach and identified roles and responsibilities for managing our Climate Change principal risk.	In 2023 we will roll out our new Sustainability Governance approach.

Risk Management

Our approach to Climate Risk

The Group recognises climate change risks and the financial impacts as a Principal Risk, reflecting management's assessment of the risk exposures for the Group across its operations based on an established approach to the identification, rating and mitigation, which is fully integrated into the Group's Risk Management Policy. Our climate-related risks are prioritised based on our risk scoring matrix, which looks at likelihood and impact. Our assessment of impact considers a broad range of impacts, including financial, regulatory, environmental, reputational and strategy considerations – our sustainability priorities are embedded throughout that assessment. Our Principal Risk categories (including Climate Change) are described in full in the Principal Risk section on page 77.

At Drax, we identify, monitor and manage our climate-related risks through scenario analysis, climate vulnerability assessments, internal programmes for carbon reduction and striving towards our BECCS ambitions to be a leader in carbon removals. In addition to minimising our own emissions, climate-related considerations are embedded in our decision-making, and we use a set of financial criteria, including our internal carbon price, for investment decisions. We consider existing and emerging regulatory requirements related to climate change as well as other relevant factors. You can find more details on how we manage risk in our "group approach to risk management" on page 78.

Drax has identified climate risks in two main categories – physical and transition. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rises. Transition impacts of climate change include policy, regulatory, technology, and market-related changes associated with the transition to a low carbon economy. Whilst the physical impact of climate change may pose challenges to our operations (which even where we seek to mitigate could still have material impact on our business), the transition impacts include several aspects which directly align with the Group's strategy.

Scenario Analysis

To understand the physical and transition risks of climate change, their financial impacts and their ultimate materiality to the balance sheet and income statement, the Group works with third-parties to perform scenario analysis. Scenario analysis enables an organisation to assess climate-related risks and opportunities under a range of potential future states and pathways. Scenario analysis can be carried out qualitatively or quantitatively and provides a useful tool to:

- enable organisations to consider issues for which possible outcomes are highly uncertain, outcomes which will develop over the medium to longer-term, or potentially have significant disruptive effects
- provide structure to strategic future planning and broaden decision makers' thinking to a range of possible scenarios
- help organisations to assess the potential business, strategic, and financial impacts from climate change and the management actions that may need to be considered in strategic and financial plans
- help organisations identify indicators to monitor the external environment and provides the opportunity for organisations to adjust their strategies and financial plans where necessary
- aid investors to understand the resilience of an organisation's strategies and financial plans and to compare risks and opportunities

The Group recognises that TCFD is a journey and as data improves, we commit to continue to build on our approach to understanding the impacts of climate change. In 2020, we completed a high-level qualitative analysis considering the impact to our business under different physical and transition climate risk scenarios. In 2021, we worked with a third party to advance this work by considering both transition and physical risks under different climate scenarios, looking at impacts to 2030, aligning with Drax's strategic planning. In 2022 Drax focused on understanding the physical risks of climate change that could impact our self-supply value chain operations in the US South, British Columbia and Alberta, for the 2030s and 2040s, expanding the time frame considered.

We have taken a risk-based approach to our analysis work, focusing on the most material areas first. Our 2022 work covered our own pellet production and supply, as this represents a significant element of our value chain and supply of biomass for Drax Power Station (DPS). Future work will have a broader focus, including impacts on forests, third-party supply of pellets and our hydropower assets.

The table below provides an overview of scenarios considered by Drax to understand the risks of climate change.

Physical Risk	• **2°C world – current level of physical impacts (approximated to RCP 2.6):** Very ambitious and effective global action to mitigate climate change results in a scenario < 2°C warming by 2100. In this scenario, the physical impacts of climate change are limited by 2030, despite some impacts continuing to increase beyond this time due to the lag in climate systems and greenhouse gas emissions. Changes across the economy, society, and environment are limited in response to physical climate change. • **4°C world – High level of physical impacts (approximated to RCP 8.5):** Low ambition/effectiveness on global action to mitigate climate change results in > 4°C warming by 2100 (despite the high ambition set by the UK). The physical impacts of climate change are more pronounced by 2030 and continue to increase significantly beyond this time. Changes across the economy, society, and environment are more pronounced in response to physical climate change.
Transition Risk	• **A 1.5°C world scenario:** Rapid and comprehensive changes are made to progress decarbonisation goals, beyond the UK's current net zero commitments and beyond current global pledges, to limit warming to 1.5°C by 2100. Coordinated global action occurs, including changes to policy, regulation, technology, and markets to support decarbonisation and carbon removal by 2030. • **An 'existing policies' scenario:** The existing policies set by the UK (which are not yet sufficient to achieve net zero by 2050), US, and Canada, and the current global pledges are maintained without further ambition and action to progress decarbonisation goals, resulting in potential warming above 3°C by 2100. Changes across the global economy and society are less rapid and less comprehensive by 2030. Policy is fragmented and ad-hoc across the UK, US, Canada, and globally.

A summary of the 2022 physical risk supply chain assessment

In 2022, we researched the physical climate risks on our supply chain. The focus was on the medium and long-term threats to our pelleting facilities, logistics operations and generation assets across the US, Canada and the UK. Short-term threats were not a focus for this study, as the Drax supply chain has some built-in resilience for the short term, and recent investments have enabled short-term risk to be managed to an acceptable level. This study therefore focused on potential future actions which will be required as the pace of change increases. This was a quantitative assessment, based on the modelled annual average expected disruption. The key risks for the 2040s were identified and are summarised in the table below:

Climate change risks in the 2040s	Risk category
River flooding in the UK impacting train routes into Drax Power Station	High
Coastal flood and potential for disruption at ports	High
Hurricane or windstorms causing disruption at US ports	Medium
Drought and low river levels causing disruption to waterway navigation	Medium
Heatwaves and wildfires causing disruption to transport routes	Medium

Low risk: <2,000 tonne-days
Medium risk: 2,000 – 10,000 tonne-days
High risk: >10,000 tonne-days

Having evaluated these risks, the analysis concluded that the Group has a resilient supply chain, with only minor disruption to supply expected during an average year due to climate related risks. The minor disruption would be equivalent to less than half a shipment to Drax Power Station per year from all the annual transatlantic ship loads we receive. This risk only rises slightly through to the 2040s, remaining below a single shipment disrupted per year on average.

Drax has a resilient supply chain, a strategy of increasing our self-supply and our climate-related opportunities outweigh our risks. As our business strategy is built around our climate-related opportunities, this demonstrates that our strategy is resilient against climate-related risks.

These risks have been incorporated into our Climate Change risk register, which is summarised below and in the Principal Risks section on page 77. In our 2021 Annual Report and Accounts, we reported on the transition scenario analysis, which looked at two transition scenarios (Rapid transition '1.5-degree scenario' and Slow transition 'existing global policies'). We reported on the main impacts under both scenarios and our strategic response under both scenarios.

The Group's business strategy is closely aligned to our strategic response to the main impacts highlighted under our transition risk scenario analysis, highlighting that our strategy is resilient against transition risks. We therefore focused in 2022 on our physical risks. In 2024, we hope to take a final investment decision on our opportunities for Cruachan expansion and BECCS, and further scenario analysis on transition risks are planned for 2024, as more information becomes clear.

To increase the understanding of the physical risks posed by climate change, the Group is considering:

- *Further risk assessment work across the Drax supply chain in North America to* help inform decision-making on possible steps to mitigate supply chain risks
- *Exploring physical climate risks outside of our supply chain, looking at* operations at DPS and at the individual pellet mills
- *Further work on heatwave risk, as* such events may have an impact on operations, including the generation of electricity at Drax Power Station, or disruption to supply chains

Our Key Climate Related Risks

1. **Time frame:** Short-term (1 year) – aligns to our time periods for assessing going concern
- Medium (2-5 years) – matches the period assessed for viability reporting
- Long-term (5+ years) – aligns to our 2030 BECCS ambitions and beyond

2. **Significant Impact**:
- Significant impact is assessed as an impact greater than 20% of 2022 Adjusted EBITDA of £731 million
  Note, the assessments in the Risks and Opportunities tables considers gross impact only, and not likelihood
- Impacts of climate change are considered in the Viability Statement on page 75 and note 3.8 to the consolidated financial statements

Grouping	Description	Time frame[1]	Significant Impact[2]	Strategic mitigation
Physical risks to our Pellet Production operations and supply chain in the US and Canada	Acute and chronic climate hazards impacting: • Fibre availability to Canadian pellet production • Site operations in US pellet production sites • Site operations at Canadian pellet production sites	ST, MT and LT	No (direct impact on revenue and cost of sales)	• Proactive weather monitoring with appropriate mitigations taken to minimise the potential impact of extreme weather events • Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption. • Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events • Diversification into new jurisdictions that reduce seasonal impact on the business • New build pellet mills positioned to minimise risk associated with potential future weather patterns • Continue monitoring systemic risks when moving to new geographies • Colleague training to respond to adverse climate effects
	Note: risks which, following mitigation, are assessed as low risk are not presented here. These include issues raised in our third-party risk assessment work, including risks to shipping in North America.			
Physical risks to our Drax Power Station operations and supply chain	Physical risks to ports and shipping UK, including • extreme weather events and flooding at multiple UK port locations • Sea level rise impacting available port facilities, preventing the receipt of material into Drax's UK ports	ST, MT and LT	Yes (direct impact on revenue and cost of sales)	• Business continuity plans in place for ports in our supply chain, including response to weather events • Continue getting more detailed climate scenario analysis to look at supply chain risks • Engaged with the local authority climate risk plan to cover storm surges
	• River water temperature at DPS rises to a level which could cause permit breach	ST, MT and LT	No (direct impact on revenue and cost of sales)	• Permit variation already in place for the summer months
	Note: risks which, following mitigation, are assessed as low risk are not presented here. These include issues raised in our third-party risk assessment work, including road and rail into the UK and risks to third-party supply			
Policy risks related to the transition to a low-carbon economy	Future regulatory framework(s) no longer consider biomass to be renewable and/or require biomass generators to pay a carbon price on stack emissions or on supply chain emissions	ST, MT and LT	Yes (direct impact on revenue, cost of sales and operating expenses)	Due to the potential high impact of these unmitigated risks, we have a strong mitigation plan in place which is functioning well, lowering the risk to an acceptable level • BECCS ambitions are a key part of our strategy • Group decarbonisation plans in place to reduce biomass supply chain emissions • Engaging with regulators and industry bodies and wider stakeholders to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring compliance • Targeted scenario planning and direct engagement with the REDIII negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes • Seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, as well as challenging views where we believe they are inaccurate or misleading
	Updates to sustainability criteria on biomass cannot be met	ST	No (direct impact on revenue, cost of sales and operating expenses)	• Continued engagement with key stakeholders around our biomass sourcing and the benefits of using biomass from working forests • Alternative Fuels programme looking at options for alternative feedstocks
	Changes in UK Carbon Budget, Government strategy significantly limits or does not allow for unabated gas generation – risk to OCGTs projects	ST and MT	No (direct impact on revenue, cost of sales and operating expenses)	• Close liaison with UK Government on future polices. Group Market Analysis team modelling future generation scenarios and predicting future generation mix • Broad range of future options being developed
	Note: risks which following mitigation are assessed as low risk are not presented here			
Technology risks related to the transition to a low carbon economy	Note: Five risks are considered within this category but are considered to be low risk after consideration of mitigations in place, so are not included here. These risks include issues such as: Lack of government strategy/commitment to new low carbon technologies and ability to raise funds for implementing new technologies			
Reputation and market risks related to the transition to a low-carbon economy	Market factors or reputation leads to a reduction in profitability of the Customers business	MT and LT	No (direct impact on revenue)	• All energy supply propositions now from renewable sources • Introduction of value-adding energy services (Offer non-generation system support and energy management services, such as the provision of decarbonization services, including vehicle fleet electrification • Strategic Communications work ongoing to provide better data and transparency on BECCS and biomass
	Note: risks which following mitigation are assessed as low risk are not presented here.			

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown.

Our Key Climate Related Opportunities

Each of our climate-related opportunities would impact on revenue, cost of sales and operating expenses.

Opportunity	Description	Time frame[1]	Significant Impact[2]	Implementation
Development of new sustainable biomass pellet capacity and self-supply	Drax is targeting 8Mt p.a. of production capacity by 2030. This production will be used for third-party sales plus our own generation. This target also covers the balance of supply from other lower cost biomass sources and third-parties. Increasing our self-supply capacity will provide greater security in respect of an important aspect of supporting our business model.	ST, MT and LT	Yes	• Expansion of existing plants and of new satellite facilities, in 2022 we increased our pellet production by 27% • In 2022 we commissioned three new plants and acquired a new 90kt pellet plant in British Columbia. You can read more about this on page 13 • Additionally in 2022, we took Final Invesment Decision (FID) to develop two new pellet production projects and, in July, opened our new Tokyo sales office
Development of BECCS at Drax Power Station	One of our strategic objectives is to be a global leader in carbon removals. At Drax Power Station, we are developing options to retrofit BECCS, and aiming for 8Mt p.a. of carbon removals by 2030. Achieving this could make Drax Power Station the world's first carbon negative plant at scale and offers a model for further BECCS retrofit for adoption by other power generation plants.	LT	Yes	• At Drax Power Station, between 2018 and 2020, we completed two BECCS pilot projects. In 2021, we selected our technology partner, agreeing a long-term contract with Mitsubishi Heavy Industries Engineering for Drax to use its carbon capture technology • We completed a pre-Front End Engineering Design (pre-FEED) study and commenced the planning application, including formal public consultation on the project. Also, in 2021, the East Coast Cluster was selected as a priority cluster for deployment of Carbon Capture and Storage infrastructure. As part of our capital investment programme on BECCS, in 2022 Drax selected Worley Europe Limited to begin the FEED work • In 2022 we signed a Memorandum of Understanding (MoU) with British Steel, and submitted our Development Consent Order (DCO) • We announced that we are aiming for 8Mt p.a. of carbon removals in the UK by 2030. And during 2022, we submitted our planning application for the UK Government consultation on greenhouse gas removals (GGR) business models. Subject to an effective carbon removals policy and regulatory framework from the UK Government, we are aiming for the deployment of BECCS on two of our biomass generating units by 2030 See more details on our ambition for two BECCS units at Drax Power Station on page 12
Development of Global BECCS in North America	We have announced that our ambition is to remove 4Mt of carbon through BECCS outside the UK p.a. while generating renewable, baseload electricity and supporting healthy, sustainable forests. We continue engaging with policymakers and are screening regions and locations for BECCS in North America.	LT	Yes	• Progressing with site selection, government engagement and technology development • In September 2022, we announced an MoU with Respira, an impact-driven carbon finance business, which could see the largest volume of carbon dioxide removals (CDRs) traded so far globally. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects. This would enable other corporations and financial institutions to achieve their own CO_2 emissions reduction targets, by purchasing CDRs from Respira See more details on our Global BECCS ambitions on page 12
The planned expansion of Cruachan Pumped Storage Power Station in Scotland.	The UK's plans to achieve net zero by 2050 will require further electrification for example of heating and transport systems, resulting in a significant increase in demand for electricity from businesses and consumers. However, meeting the full extent of expected demand will only be possible if additional power sources are developed which can provide the dispatchable power and system support services required to ensure security and stability of supply and to limit the cost to the consumer.	MT	No	• Planning application was submitted in May 2022. The location, flexibility, and range of services it can provide makes Cruachan strategically important to the UK power system • A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework

- Amount and extent of assets or business activities vulnerable to transition risks: Based on the residual risk after mitigations over a five-year time horizon, capitalised spend on UK BECCS is vulnerable to transition risks if the UK Government does not pursue BECCS as a route for carbon removals. As identified in the critical judgements, the total capitalised to date is £25 million. This is linked to the risk around regulatory frameworks identified in the table above. An investment decision could be taken by the Group in 2024, subject to the right investment framework, and spend will continue on this project in 2023.
- Amount and extent of assets or business activities vulnerable to physical risks: Based on the residual risk after mitigations over a five-year time horizon, an interruption to biomass generation is considered to be the most likely way that physical risk could manifest. As identified in the table above, the impact of this could be greater than 20% of Adjusted EBITDA in a given year.
- Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities: The Group's purpose – to enable a zero carbon lower cost energy future – and our ambition to become a carbon negative company by 2030, inform our future capital expenditure and investment plans. We believe that our three strategic objectives are closely aligned with the goal of addressing climate change. As previously announced, we are developing plans to invest a significant amount in the coming years to progress these objectives, and expenditure is underway in planning and development of new technologies such as UK BECCS. £19 million of capital expenditure related to UK BECCS was recognised during 2022 with a total capitalised spend on the project to date of £25 million.

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown.

Our progress against TCFD recommendations

TCFD pillar:

Risk Management

Actions for 2022	Progress in 2022	Actions planned for 2023
Build on the first phase of the asset-level physical risk assessment, considering additional climate scenarios over longer time horizons.	In 2022, we completed the second stage of our physical risk assessment of our US and Canada pellet operations.	Drax will update and monitor the risk register for the Climate Principal Risk and build on our risk assessment work.

Strategy

Impact of climate-related risks and opportunities on our strategy

The identified climate-related risks and opportunities that could have a material financial impact on the business are set out on pages 56-57.

Our climate-related opportunities are intrinsically linked to our strategy of being 1) a global leader in sustainable biomass pellets, 2) a global leader in carbon removals, and 3) a UK leader in dispatchable, renewable power.

We continue to explore and develop the transition plan that will enable us to operate beyond the current subsidy regime for biomass generation past 2027. Subject to the right regulatory and investment framework, we aim to transform Drax Power Station into one of the world's leading carbon capture projects. This involves using BECCS to permanently remove 8Mt p.a. of CO_2 emissions from the atmosphere each year by 2030. The project is well-developed, the technology proven within the industry, and an investment decision could be taken in 2024, with a first BECCS unit operational in 2027 and a second in 2030. Should BECCS not be achieved due to any of the risks identified in the Principal Risk and Uncertainties disclosure on pages 82-83, this would potentially limit our ability to achieve our net carbon negative targets.

In 2022, we made significant progress to deliver our BECCS project. This included submitting our DCO, continuing with the FEED process, and signing a MoU with British Steel. It also included ongoing stakeholder engagement with the local community, local planning authorities, the Environment Agency and the Health and Safety Executive. The East Coast Cluster initiative was selected as one of the UK's first carbon capture and storage clusters in the UK, see more on page 14. This is the first step towards ensuring the CO_2 transportation and storage infrastructure which will be required to safely take and store the CO_2 emissions captured by the BECCS project.

We do not expect the six-month winter contingency for coal, which ends in March 2023, to have an impact upon the timing of the project's final investment decision or intended commissioning date. Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units in March 2023. You can read more about our ambitions for BECCS in the CEO's review on page 12.

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown. We consider climate change through our financial planning, please see note 3.8 to the financial statements.

Our Beyond Net Zero Plan and Progress

One of the pillars of our business strategy is to be a global leader in carbon removals. To demonstrate our commitment to that, in 2019 we set an ambition to be carbon negative by 2030. Our actions towards our strategy are summarised in the graphic page 59.

Progress: We have been on a journey removing fossil fuels from our generation portfolio. In 2012, we were a single site, burning 9.6 million tonnes of coal, producing emissions of 784t CO_2 per GWh of electricity generated. In 2020 we announced the planned closure of our commercial coal operations and in 2021 we sold our CCGT assets. In 2022, we agreed to delay the planned closure of our two coal-fired units at the request of the UK Government to bolster the UK's energy security by providing a winter contingency service (October 2022 – March 2023) to the UK power system. Our coal units will close in March 2023 on conclusion of the contract with National Grid. We are currently developing three OCGT plants, to deliver on our capacity market contracts starting in 2024 and continue to evaluate these projects, including their potential sale.

In addition to removing fossil fuel generation, we have been identifying emissions reductions opportunities and efficiency projects. We remain committed to our BECCS ambitions, which we believe is fundamental to delivering the net zero ambitions of the UK, not just our own carbon removal ambitions.

Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities:
At 31 December 2022 the Group had capitalised £25 million relating to the UK BECCS development project, including £19 million in 2022. Please see more detail in our financial statements.

Aligning with our strategic objectives:

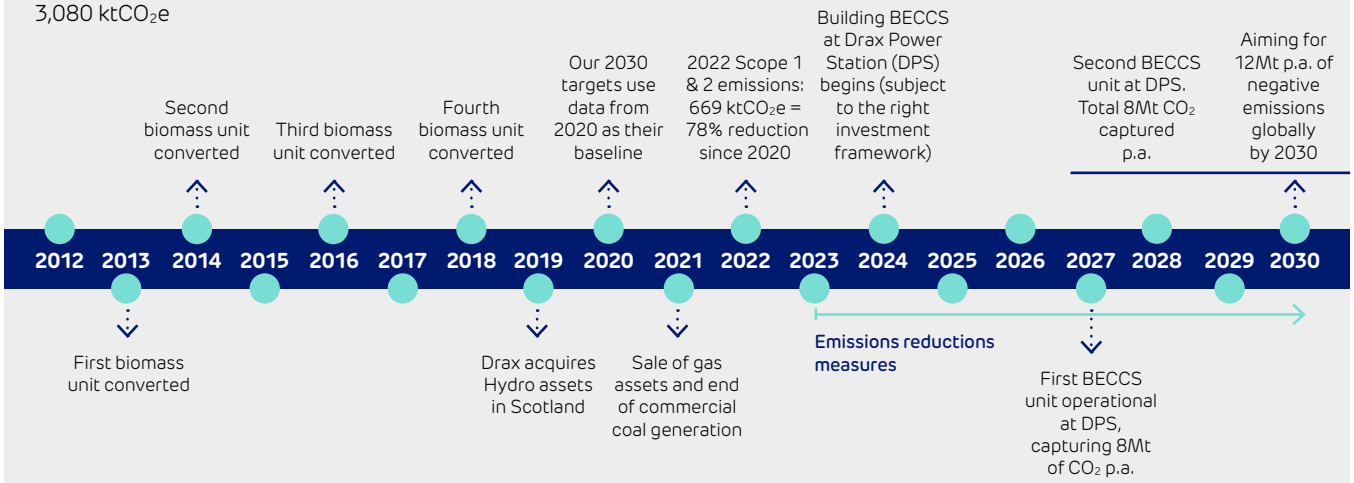
To be a global leader in carbon removals

Emissions in 2020 (as per baseline)

Group emissions, scope 1 and 2: 3,080 $ktCO_2e$

2030: Drax achieves carbon negative

- 75% reduction in Scope 1 and 2 emissions from electricity generation
- 42% in non-generation Scope 1 and 2 emissions
- 42% in Scope 3 emissions



A purpose, strategy, and ambition that places climate change at the heart of what we do

Our progress against TCFD recommendations

TCFD pillar:

Strategy

Actions for 2022	Progress in 2022	Actions for 2023
Undertake in-depth analysis on the physical climate risks across our biomass pellet supply chain and build on the climate scenario analysis completed in 2021.	We completed our follow up climate scenario analysis in August 2022 and shared this with the relevant teams across the business.	Drax will perform an additional materiality assessment of ESG related risks that will seek to inform the Group's approach to climate and other sustainability related risks.

Metrics and targets

At Drax, our key metrics related to our transition to a net zero future are focused on monitoring our progress towards our carbon negative ambition.

We consider our climate related issues in the context of our materiality assessment. In 2023, we are completing a materiality assessment with support from a third party and commit to updating our metrics in line with any changes.

Climate-related risks and opportunities	Climate Related Metrics	Metrics relevant to all risks and opportunities
• Physical risks to our Pellet Production operations and supply chain in the US and Canada • Physical risks to our Drax Power Station (DPS) operations and supply chain	• Amount and extent of assets or business activities vulnerable to physical risks. Please see climate-related risks, page 57 • Pellets produced (see Key Performance Indicators, Page 18)	GHG emissions: • Scope 1 • Scope 2 • Scope 3 • Carbon intensity page 61
• Policy risks related to the transition to a low-carbon economy • Technology risks related to the transition to a low-carbon economy • Reputation and market risks related to the transition to a low-carbon economy	• Amount and extent of assets or business activities vulnerable to transition risks £ or % Please see climate-related risks, page 57 • Land use. 97% of wood pellets used in Drax Power Station were SBP-Compliant (full reporting on biomass sustainability in the Biomass Sourcing section, starting on page 40) • Proportion of business activities aligned with climate-related opportunities – Proportion of 2022 Group generation from biomass, hydro and pumped storage: <99% (2021 was 94%)	• Total energy consumption page 61 • Remuneration linked to climate change, see below • Internal carbon price, see below • Water use, see page 51
• Opportunity: Development of new sustainable biomass pellet capacity and self-supply	• Pellets produced (see Key Performance Indicators, Page 18) • Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. Please see climate-related opportunities, page 57	
• Opportunity: Development of BECCS at DPS • Opportunity: Development of Global BECCS in North America	• Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. Please see climate-related opportunities, page 57	
• Opportunity: The planned expansion of Cruachan Pumped Storage Power Station in Scotland	• Proportion of business activities aligned with climate-related opportunities. Proportion of 2022 Group generation from biomass, hydro and pumped storage: >99% (2021 was 94%) • Pumped storage and hydro capacity: 0.6GW (see page 9) (2021 was 0.6GW)	

Remuneration:

Our Group Scorecard comprises key metrics by which the cash bonus awards for Executive Directors and all eligible colleagues are assessed. For 2023 the Scorecard includes a carbon reduction metric, linking performance-related remuneration to actions that support the delivery of our long-term ambition to be carbon negative by 2030.
See targets section on page 62.

Internal carbon price:

For Drax's future investments to adequately consider their carbon impact, we have developed a shadow carbon price in 2022. Our internal carbon price has been benchmarked to the UK ETA, and will be subject to change over time, and across 2022 was within the range of £75-100/t.

We intend that as part of the evaluation of strategic growth project decisions through 2023, our internal shadow carbon price will be considered and will be applied to emissions across all Scopes (1, 2 and 3) over the lifetime of the investments. The level of the price will be kept under review so that it calibrates to a sufficiently material level to influence decisions, driving forward our purpose.

Understanding our carbon emissions

Upstream	Direct emissions	Indirect emissions from electricity	Downstream
• Coal supply chain • Natural gas supply chain • Biomass supply chain • Supply chain for other fuels • Supply of sludge to Daldowie • Biomass transport from Drax Biomass to Drax • Utilities as part of lease contracts • Emissions from operational and capital purchases • Business travel • Hotel stays • Employee commuting	• Coal and natural gas power generation • Methane and nitrogen oxides emissions from biomass generation • Pellet plant operations • Pellet port operations • Large plant vehicles • Flue gas desulphurisation systems • Company vehicles • Fluorinated gases from heating, ventilation and air conditioning systems	• Hydro electricity consumption • Cruachan electricity imports • Generation electricity consumption • Pellet Production business electricity consumption • Office sites electricity consumption	• Recycling, processing and disposal of waste • Reuse and reprocessing of ash and by-products • Transmission and distribution • Emissions from use of sold electricity • Emissions from use of sold natural gas • Emissions from transport and use of sold pellets

In line with TCFD Guidance on Metrics, Targets and Transition Plans (October 2021), we disclose the following climate-related metrics:

Carbon and energy performance

	Unit	2022	2021	2020
Carbon emissions				
Generation CO_2 emissions[1]	$ktCO_2e$	310	525[7]	2,682[7]
Group total Scope 1[2]	$ktCO_2e$	336*	932	2,762
Group total Scope 2 (location-based)[3]	$ktCO_2e$	333*	323	318
Group total Scope 2 (market-based)[3]	$ktCO_2e$	332*	323	318
Group total Scope 1 and 2 (location-based)[6]	$ktCO_2e$	669*	1,255	3,080
Proportion of Group emissions within the UK	%	51*	78	95
Group total Scope 3[4]	$ktCO_2e$	3,123*	3,121	3,135
Biologically sequestered carbon[5]	$ktCO_2e$	12,130	13,415	13,273
Carbon intensity				
Generation emissions per GWh of electricity generation	tCO_2e/GWh	23*	33[7]	143[7]
Group emissions per GWh of electricity generation[6]	tCO_2e/GWh	49*	78	164
Total energy consumption				
Group total energy consumption	kWh	5,232,723,625*	44,112,891,484	48,253,807,865
Group total energy consumption within the UK	kWh	680,178,336	40,112,110,227	47,090,524,296

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO_2e) and include all greenhouse gases as required by the GHG Protocol. For the basis of reporting see www.drax.com/sustainability

(1) Generation emissions covers the total direct emissions from Scope 1 and indirect emissions from Scope 2 activities across our Generation sites
(2) Group total Scope 1 covers all direct emissions from our own business operations, across all sites
(3) Group total Scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites
(4) Group total Scope 3 excludes 'downstream leased assets'; and categories 'end of life treatment of sold products', 'franchises' and 'investments' are not applicable
(5) The biogenic carbon emissions resulting from generation are counted as zero in official reporting to both UK authorities and under the UK Emissions Trading Scheme as the use of sustainable biomass is considered to be CO_2 neutral at the point of combustion. This methodology originates from the United Nations Framework Convention on Climate Change
(6) Group emissions are total Scope 1 and 2 emissions as reported
(7) 2021 and 2020 figure was based on the Scope 1 $kgCO_2$ EUETS value of Drax Power Station and Daldowie only
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Sustainable Development continued
Climate Positive

Targets:

In response to our climate risks, our actions centre around our ambition to deliver negative emissions and the targets listed here are in response to our climate-related risks and support our climate-related opportunities.

Our ambition is to become carbon negative by 2030. To achieve this, we have set the following targets which are going through the validation process with SBTi and are based on further reductions from a 2020 base year:

- 75% in Scope 1 and 2 emissions from electricity generation by 2030
- 42% in non-generation Scope 1 and 2 emissions by 2030
- 42% in Scope 3 emissions by 2030

Interim targets towards our long-term ambition to be carbon negative by 2030 that are in the Group Scorecard for 2023 are:

- Reduce the emissions footprint arising from our portfolio of hydro generation assets by 25%, by the end of 2023, versus our 2020 baseline emissions figure
- Beginning the process of exiting the sale of natural gas contracts to our retail customer base
- Installing electric vehicle charging infrastructure across the majority of our UK sites

Alongside the 2023 Group scorecard projects, we will utilise the new shadow carbon price to prioritise and seek funding for dedicated decarbonisation projects, currently at various stages of development, to target specific sources of emissions across our Group footprint. This will allow us to secure capital spending for projects which do not provide positive commercial returns when judged against traditional valuation measures.

Aligned with our climate-related opportunity to develop new sustainable biomass capacity and self supply, we have set a target to have 8Mt p.a. of production capacity by 2030. See Strategic Report, page 19.

We have not set targets on spend related to our BECCS ambitions, but we continue to progress our strategy and hope to take a final investment decision in 2024.

See more details on our plan to reach our negative emissions ambitions in the CEO Review on page 12.

TCFD pillar:

Metrics and Targets

Actions planned for 2022	Progress in 2022	Actions for 2023
Develop internal carbon targets, underpinned by carbon reduction plans, outlining the financial and human capital we will deploy for implementation, for approval by the Board.	We set up a new Carbon Reduction Task Force, to support our carbon reduction plans and began the process of developing internal carbon targets. We submitted for SBTi validation and will update on this in 2023.	In 2023, we will be developing individual carbon reduction plans across our three main business units (Pellet Production, Generation and Customers). These will form part of our climate transition plan.

LRQA Independent Assurance Statement

The following statement is a direct extract from the LRQA assurance statement dated 20 February 2023.

Relating to the Drax Group Plc Environmental and Social Governance data for the period January 1 2022 to December 31 2022.

LRQA Limited ("LRQA") has provided independent limited assurance to Drax Corporate Limited ("Drax") over specific data within the Drax Group plc Annual Report 2022 ("the Report") including the following:

- Group GHG emissions (Scope 1 and 2)
- Group GHG emissions (Scope 3)
- Water abstraction and discharge
- Employment data on headcount
- Group energy consumption
- Percentage of emissions in the UK
- Group generation emissions intensity
- Group emissions intensity

The assurance was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000. LRQA's full independent limited assurance statement can be found at www.drax.com/sustainability.

Nature Positive

We have put an emphasis on working in ways that respect, protect and where possible add benefits to the natural environment.

Global Context

Introduction by Alicia Newton – Senior Scientific Officer

We have put an emphasis on working in ways that respect, protect and where possible add benefits to the natural environment, through partnerships and initiatives around regions in which we operate. This ranges from our power station in North Yorkshire and hydro sites in Scotland, to the forests from which we source in both the US and Canada.

In 2021, the World Economic Forum (WEF) Global Risk Report identified biodiversity loss, ecosystem collapse and human-made environmental damage as top risks. The general expectation of business and society is shifting from solely minimising harm (or protecting natural environments) to actively restoring and creating an environment to allow nature wellbeing to improve. At Drax, we support this and will include it within our Nature Positive outcome as it progresses in 2023.

We fully support Target 15 (part of the post-2020 Global Biodiversity Framework, ratified at COP15 in late 2022 which looks at the responsibilities of businesses and financial institutions) and are working towards it by developing processes to align with TNFD (see more on page 65 about our TNFD pilot).

In 2022, we began work on consolidating our Nature Positive approach across the business and its operations – e.g., by developing KPIs and metrics. I'm proud to say that we remain passionate about contributing to nature-positive globally while remaining committed to delivering Nature Positive outcomes for the business. In this report we will refer to both 'nature-positive' (which refers to the global concept – see box) and 'Nature Positive' (which refers specifically to one of the Drax sustainability outcomes).

Approach and governance for Nature Positive

We continue to shift our approach from a focus on ensuring we do not have a harmful nature impact to also include restorative nature actions. The ESG dashboard allows tracking of our nature-related actions, and we are continuing this work in 2023 as we publish our Nature Policy. One of our aims for 2022 was to begin to integrate existing workstreams into a Nature Positive framework and narrative. This piece of work will continue in 2023 as we work through the TNFD pilot.

In 2022, we began work on a separate Nature Policy, which will map onto our Group aims and extend our commitment from 'no harm' to actions which encourage the regeneration of nature. Our Nature Policy will set out what we aim to achieve as a business to support nature and biodiversity in the areas where we operate. Until implementing our new Nature Policy, we have our Group Environment Policy, which can be viewed on our website. This outlines our commitment to minimise adverse impacts of our operations on biodiversity, through the protection of fauna and flora.

Nature initiatives

Below is a summary of some of our current efforts and initiatives that we hope to build on in 2023.

US:

- Collaboration with the Louisiana Department of Wildlife and Fisheries (LDWF) to improve forest conditions of hardwood plantations established under the Wetland Reserve Program (WRP) by providing a market for thinning material.
- We support the Forest Stewards Guild's (FSG) bottomland hardwoods initiative in the Lower Mississippi Alluvial Valley.

What is nature-positive?

In a paper published in 2021, conservationist Harvey Locke, scientist Johan Rockström and the CEOs of 12 conservation and business organisations, argued for the adoption of a 'Nature-Positive Global Goal for Nature' corresponding to and supporting the net zero goal. The paper set out three gradual objectives for nature-positive: 'Zero Net Loss of Nature from 2020, Net Positive by 2030, and Full Recovery by 2050'. Put simply: We need more nature by 2030 than we have today.

In 2022, we set the following commitment for Nature Positive:

By 2027 Drax will have implemented the systems and metrics across our operations and value chains to demonstrate a contribution to nature positive outcomes in those regions.

Sustainable Development continued
Nature Positive

Work with the FSG includes participation in, and support of, learning exchanges and landowner workshops, plus funding for the development of individual management plans. We also share bottomland hardwood mitigation material with our suppliers (a project developed in cooperation with the FSG).

Canada:
- In British Columbia, we collaborate with various forest industry participants to advance environmental stewardship, including First Nations. Our purchase of low-grade wood and residues enhances the quality of forests by avoiding the burning of the material left on the forest floor, which often occurs. Removal of the residues also helps prevent and mitigate the impact of wildfires.

Drax Power Station:
- The nearby areas of Barlow Mound and Arthur's Wood are monitored annually, through ecological surveys with independent reporting (such as of soil health). Barlow Mound and Arthur's Wood are also managed for wildlife habitat conservation.

Cruachan Power Station:
- Since 2009, this plant has completed biodiversity surveys to monitor the species living in the surrounding habitats. This survey data has allowed the team to build a picture of the variety of mammals, birds and insects present in the area, including a significant number of protected status species.
- We seek to partner with local organisations and land-owners such as to reforest pockets of land near the plant. This project further enhances the extent of natural forest within the area, complementing some of the protected 'Atlantic rainforest' in Scotland, and providing habitat for many local native protected species.

Galloway and Lanark Hydro Electric Schemes:
- We started a project with partners to monitor Atlantic salmon smolts in the Polharrow Burn to increase understanding and identify if there are hotspots of fish mortality.
- In 2022, the team started a new project (Dee Restoration) at Black Water, funding the improvement of instream and riparian habitats.

Contributing to nature-positive thinking

We are working with the World Business Council for Sustainable Development (WBCSD) to track nature-positive science and the international response to understand how we can learn from the latest developments and work towards a shared understanding of nature-positive with other stakeholders.

Within WBCSD, we are active members of multiple working groups including the Forest Solutions Group and the Nature and Nature-based Solutions project. Through this engagement, we are helping with the development of nature-positive roadmaps for both the forest and energy sector. The 'Forest Sector Nature-Positive Roadmap Phase I: A shared definition of nature-positive', published in November 2022, provides guidance and tools to support forest companies in implementing nature-positive strategies.

WBCSD is a Science Based Targets Network (SBTN) corporate engagement programme member. In 2022, Drax was involved in the joint WBCSD and SBTN consultation workshops of the SBTN design phase, developing science-based targets for nature through methods, tools, and guidance.

We are a founding supporter of the Get Nature Positive campaign.

Highlight on:

Post-COP15: our thoughts on the World Biodiversity Summit

Business and finance representatives formed a large portion of the attendees at the COP15 summit in Montreal and were united in their recognition of the need to halt and reverse nature loss.

There was widespread support for adopting a target of '30 by 30', meaning that 30% of land and marine areas are designated as protected by 2030. Business leaders also led the call for the adoption of the Kunming-Montreal agreement, particularly the specific targets around reforming environmentally harmful subsidies and the reporting of nature-related risk and opportunity in financial disclosures. Drax is excited to embrace and contribute to these targets in the coming years, and to continue to be part of the conversation around the Global Biodiversity Framework and the Global Goal for Nature. Drax attended COP15, supports these nature-oriented priorities and is reflecting them in our policy framework, in our actions and in our pledge of financial resources to realise the necessary change. We expect this to be an important area of focus in 2023.

The Taskforce on Nature-related Financial Disclosures (TNFD)

Launched in June 2021, the TNFD is an international initiative to provide a framework on how organisations can address environmental risks and opportunities to channel capital into positive action. The framework builds on the existing Taskforce on Climate-related Financial Disclosures (TCFD).

At the time of writing, the TNFD is currently on its third beta iteration, with the final TNFD framework set for publication in September 2023.

We are committed to the management and disclosure of our nature positive risks and opportunities. In 2022, we were selected alongside 22 other companies to pilot the TNFD framework with TNFD pilot partner WBCSD. Drax was chosen among others in the energy industry to represent the renewables and bioenergy sector.

Since October 2022, we have participated in multiple workshops to contribute to the development of the TNFD framework, exploring priority focus areas for the energy sector through testing the guidance and knowledge sharing. Findings and feedback from the group will be fed back to TNFD in 2023.

People Positive

Enabling our people to achieve our strategy is key to Drax achieving its ambitions.

Introduction by Karen McKeever – Chief People Officer

Enabling our people to achieve their potential and feel they are enabled to do their best is critical to Drax achieving its ambitions. To be People Positive, we are looking after the people who work for and with us, as well as supporting the communities in which we operate. We do this by supporting the green skills agenda, developing a talent pipeline, and focusing on diversity and inclusion. Our ambition is to make Drax a great place for all colleagues to work, be themselves, and grow, while being a good and responsible neighbour.

With the impact of Covid-19 still being felt, our people strategy aims to ensure that colleagues have the resilience to adapt and work effectively at a fast pace, whilst having the confidence in and awareness of the resources available to them to manage current and future uncertainties. An effective approach to helping our people also means that as an organisation we need to adapt. We are therefore evolving our ways of working to create an environment with the colleague experience at its heart.

Our People Positive strategy objectives are to:

- Ensure the organisation has the diversity, skills and experience to deliver our business strategy
- Bring to life a culture that is representative of our strategic ambition
- Ensure our people are working as effectively as possible, feel valued for the work they do and their contribution as a person to our workplace community

People Positive strategy

Our People Positive strategy encompasses all aspects of a colleague's experience at Drax, including the systems we use, our policies, our values, and our culture.

In 2022, we continued to review our People policies to assess whether they met the up-to-date needs of our business and colleagues. We introduced a new Bereavement policy which considers a range of bereavement experiences, including miscarriage.

Our Resourcing strategy underpins our plans for growth, reflecting work with the business to understand both current and future resourcing needs. This has included new advertising and engagement strategies to attract, retain and develop diverse talent pools that reflect the demographics of the areas in which we operate. It also includes our Strategic Workforce Plan, which focuses on future workforce planning, enabling us to grow our business internationally and adapt to business changes swiftly.

We continued to undertake reviews of our reward strategies in each market, with the intention that our people are incentivised, rewarded and recognised for their contribution. This helps us create a high performance, inclusive culture.

During 2022, we started work on our employee value proposition, which aims to reorientate and integrate the organisations culture and values and support our global growth strategy. This will create an environment where colleague wellbeing is prioritised.

Spotlight

Our Values

We care about what matters

We're a can-do kind of place

We see things differently

We listen carefully

We do what we say we'll do

Find out more on page 94

Our People

	Unit	2022	2021	2020
Total number of Group employees(1)	n	3,229*	3,053	3,022
Employee engagement score	%	79	79	82
Total employee turnover rate	%	13.8	29.5	11

(1) Total number of Group employees as at 31 December
* Limited external assurance by LRQA (limited assurance using the assurance standard ISAE 3000) for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Safety, health and wellbeing

Approach and governance for safety, health and wellbeing

The safety, health and wellbeing of our employees and contractors is a primary focus for Drax. Our Group-wide Safety, Health and Wellbeing policy (available on our website) is supported by our OneSafeDrax vision that all colleagues have a role to play in safety for themselves and those they work alongside.

Local Health, Safety and Environment (HSE) performance is regularly reviewed by each management team, with Group HSE performance reviewed quarterly by the Group HSE committee. Findings from an assessment of captured data is reviewed by the Executive Committee and the CEO also reports on that analysis, progress made on initiatives and areas for further action to the Board at each meeting. Additionally, Drax Leadership Team sessions (held monthly) commence with a 'safety standout' section where key safety messages are shared.

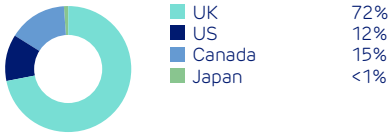
During 2022, we completed the roll-out across all sites of a new HSE reporting platform. This single system allows more data analysis of incidents, corrective actions, hazard management, risk management and behavioural observations. We expect to see improved analysis in 2023 as we develop dashboards to look at trends in reporting that help us understand areas for action and develop local objectives.

An important part of the processes, systems and training which we adopt is a recognition of the importance of continued attentiveness, of learning about existing and emerging workplace hazards and risks and ensuring the appropriate tone and commitment from leaders and all colleagues in working safely. In this way safety is acknowledged to be a shared responsibility which is enabled by ongoing vigilance and striving to improve, recognising that as individuals and as a collective we can do better.

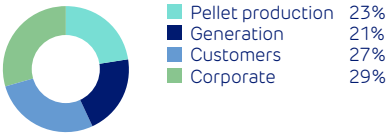
Additional people data can be found in our ESG Supplement, published on the Drax website.

Employment contracts

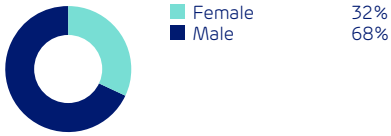
Employees per country



Employees per business unit



Employment gender (total workforce)



Note: headcount as at 31 December 2022
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Safety Management Systems

We have safety management systems (SMS) in place to promote safe workplaces for our people. During 2022, we aligned all our Pellet Production sites to one HSE management system across the US and Canada. Our Customers and Corporate sites in the UK continue to implement a SMS, with a focus on promoting wellbeing and a continuous improvement in our health and safety culture.

Using a risk-based methodology designed to assess, improve, and demonstrate the adequacy of our HSE business processes, a third-party undertakes our HSE internal assessment. Each business receives a report for local management's ownership of the improvement areas, and the overall assessment is reported to the quarterly Group HSE Committee and to the Audit Committee. In 2022, this happened in July and November respectively. The Group HSE Committee provides oversight on HSE related risks, and the Committee's Terms of Reference were reviewed in June 2022.

My Voice survey 2022:

"90% of colleagues believe their supervisor/manager sets the right example when it comes to being safe on the job"

Sustainable Development continued
People Positive

Health and safety compliance
Wherever we operate, we seek to establish an open and direct partnership with the local health and safety agencies. We provide further information on safety aspects below:

- As reported in 2021, following notification of charges relating to a violation of occupational health and safety laws arising from an explosion at the Entwistle pellet plant in February 2019, Drax pleaded not guilty to all charges. In September 2022, all charges against Drax were dismissed.
- We have received notification from the Health and Safety Executive in relation to non-compliance with the Pressure Systems Safety Regulations (2000) at Drax Power Station. Drax consider this to be an administrative breach and have challenged the notification, and we are awaiting a formal response from the Health and Safety Executive.

Safety Performance
Each business unit submits monthly reports on HSE performance, including our total recordable injury rate (TRIR). The Board receives an update at each meeting as part of the CEO report, which includes information on any incidents and trends. We have a process to investigate injury events, with particular focus on those with a potential to become more severe, to ensure we establish root causes and learn the lessons we need before sharing those findings and learnings across the organisation, where relevant.

In 2022, our total TRIR was 0.44 per 100,000 hours worked, against a target of 0.20 (2021: 0.22 per 100,000 hours worked, against a target of 0.20). This is not where we want our safety performance to be and remains a primary focus for us. However, it does reflect our improved visibility on incidents and reporting in the year as changes have been introduced across the Pellet Production teams that better capture incidents and provide tools for assessing and reporting on actions being taken.

In September 2022, we conducted a 'safety standdown'. This was an opportunity for all our operations and support functions to engage in a conversation about safety, as an avenue for collating ideas on how we can improve our safety performance. The safety standdown was launched with a video from the CEO to all colleagues, emphasising the importance of safety. Our teams are now tracking their commitments to improving safety behaviours and specific actions.

As we implement our HSE improvements, we are investing in maturing our safety culture. Through a training and mentoring programme, including hazard awareness and risk assessments, we expect to see reductions in TRIR during 2023. We plan to conduct relevant benchmarking in 2023 on our injury rates, and TRIR will form part of the safety scorecard metric in the bonus calculation.

Process safety
Process safety is the application of engineering and management principles, guidelines, and tools to the identification, assessment, and control of the risks associated with the release of hazardous materials during the design, operation, and maintenance of our industrial processes. The goal of our process safety is to prevent or mitigate the consequences of accidental releases of hazardous materials, which can include chemical spills, explosions, and fires.

Our Group-wide Process Safety Policy focuses on how we identify and manage process risk to protect our people, assets, the environment, and the communities in which we operate. It reflects our commitment to reducing the potential for a major accident, through the application of improved plant and process controls, and the training and awareness of our people.

During 2022, we embedded process safety across the Generation business and continued the journey of integration across our Pellet Production business. Our process safety principles are in line with industry good practice and focus on controls of plant, process and people. A new process safety dashboard was delivered in 2022, giving management and operations teams visibility of process safety compliance against targets. As part of continuous improvement, we will update and adapt this during 2023 to reflect best practice. We aim to improve and consolidate our process safety measures by adopting a multifaceted approach to the scoring that highlights and prioritises improvement areas.

Process safety performance is reported monthly to the Executive Committee. We expect that all process safety incidents with high potential are routinely investigated to establish root causes and enable corrective actions. The actions focus on preventing reoccurrence and we share the lessons learned across the Group.

Health and safety performance

	2022	2021	2020	2019
TRIR – total[1] [2]	0.44*	0.22	0.29	0.22
TRIR – employees	0.46	0.27	–	–
TRIR – contractors	0.39	0.11	–	–

(1) TRIR is the total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. Total includes both employees and contractors. There were no fatalities in any of the years stated above.
(2) Limited external assurance by LRQA (limited assurance using the assurance standard ISAE 3000) for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

For additional health and safety performance data, see our ESG data supplement

Wellbeing

We have given increased attention and resources to colleague wellbeing and our strategy includes support through our benefits, employee assistance programmes, manager and leader education, and mental health first aiders. We have a wide-ranging communication programme to help raise awareness and educate colleagues about the support available to them, including our Living Well newsletter and on-site events. In the UK, we held wellbeing fairs for the first time in November, giving colleagues the opportunity to interact with benefit providers first-hand.

With many colleagues feeling the impact of the rising cost of living, we introduced a new financial wellbeing partner, nudge. As well as providing personalised online financial wellbeing hints and tips, nudge worked with us to provide seminars covering topics including how to navigate the cost of living crisis. In 2023, we will continue to work closely with this provider to offer ongoing support to colleagues.

We know that wellbeing is closely interlinked with inclusion. To create an inclusive environment, our wellbeing and inclusion strategies are closely aligned. Both are delivered through colleague events (both in-person and online) and internal communications (such as newsletters) to encourage colleagues to take part in awareness sessions and discussions.

Building psychological safety, where colleagues feel comfortable to talk about difficult topics, has also been a key priority during 2022. Through communications and events, we tackled sensitive subjects, including menopause, male mental health, and testicular and prostate cancer.

With the support of an external specialist, we increased the number of colleagues in the UK trained as mental health first aiders, enabling appropriate representation for each UK business area. This has ensured these colleagues are able to provide support to the rest of the workforce. We have also continued our work to understand the appropriate offering for our North American colleagues. We are aiming to build on the energy and enthusiasm of our existing mental health first aiders to act as wellbeing advocates across our organisation, to support our wellbeing strategy.

Colleague representation and engagement

Engaging with our colleagues is a priority and starts with listening to, and better understanding, their views. Established in 2019, our My Voice Forums (MVFs) are a valuable way for the Board and senior management to undertake such engagement. The MVFs are made up of colleague members from each part of our business, to ensure representation for every function. A member of the Exectuive Committee and an HR representative support these forums and attend each meeting. The MVF chairs meet quarterly with the Chair of the Board of Directors and the CEO to discuss colleague sentiment and to provide feedback on key topics. You can read more about such Board-level engagement with the MVFs on page 109.

We regularly survey our colleagues to understand levels of engagement and inclusion, which helps us understand progress or areas of challenge in making Drax an inclusive and positive place to work. Our inclusion index is also one of the key metrics on our Scorecard – see page 147 for more information.

Based on the findings from our annual survey undertaken in October 2021, our engagement and inclusion scores have improved compared to 2021. The 2021 engagement survey highlighted that leading change, our social and environmental commitment, and providing opportunities for careers and development are what matter most to our colleagues. In 2022, our survey results showed that good progress has been made on leading change on and careers and development. However, there is more work to do to help build colleague understanding around our social and environmental commitments. This will be addressed through our community strategy and our work to improve transparency and reporting on our biomass sourcing.

Diversity, equity and inclusion (DE&I)

We are committed to a supportive, diverse and inclusive working environment, where employees can be themselves. Genuine inclusion that is reflected in the attitudes of those people within the organisation to being open to accepting, respecting and collaborating with people whose ideas and backgrounds differ from their own, drives diversity, which drives innovation. As the Group grows and increases our global footprint, we draw on the culture and heritage of the communities and countries where we operate. This supports our business for future growth and delivers on our purpose: to enable a zero carbon, lower cost energy future.

Diversity Data, gender balance

Board:

44% female

56% male

Senior career levels:

31% female

69% male

Sustainable Development continued
People Positive

Our My Voice Survey gives an insight into DE&I at Drax, and our Inclusion Index in 2022 was 80% – a 3% increase from 2021.

Our key activities in 2022 included the following:

- We focused on building an experienced DE&I team to drive our progress. The team undertook a review of our DE&I interventions globally and used this to enhance our DE&I strategy.
- We built the foundations for the launch of our four Colleague Resource Groups (CRGs) planned for 2023. Our CRGs will be a space for colleagues who are passionate about inclusion to support our inclusion goals, and for colleagues from marginalised communities to come together.
- We continued to roll-out our Inclusive Management Programme for managers. The programme uses immersive learning to build manager capability around inclusion, from understanding bias to having challenging conversations. By the end of 2022, over 180 managers had attended the programme, which is being rolled out to North America in 2023. Alongside this, we also launched our global 'We Belong' e-learning programme for all colleagues.
- In November 2022, we sponsored the POWERful Women Conference, focused on how the energy sector can build inclusive cultures and deliver on diversity goals. Twelve female colleagues from across Drax attended the conference and brought those learnings back to their own roles. Our partnership with POWERful Women has also seen us involved in their campaign to widen participation of women in the energy sector, and several colleagues from Drax will be featured in this campaign in early 2023. This is an important issue for Drax, and we support the aim to encourage more women to consider a career in energy.
- In 2022 we refreshed our self-identification project 'Count Me In'. The purpose of 'Count Me In' is to gain greater insight to the demographics of our colleagues, so we can make more informed and strategic decisions. By the end of 2022, 71% of our colleagues had completed the 'Count Me In' survey, and we will continue to take action to improve this.

Further information on diversity is available in the Corporate Governance Report, page 100

Levelling up and social mobility

Drax is at the forefront of bringing opportunities and growth to Yorkshire and the Humber – helping to work to a goal of creating thousands of jobs. Our most recent report, 'Capturing Carbon at Drax: Delivering jobs, clean growth and levelling up the Humber', shows how the Humber region could be the cornerstone of a green economic recovery by creating and supporting thousands of jobs.

- We are partnering with Selby College to develop the UK's first educational programme in carbon capture.
- We are part of the Zero Carbon Skills Taskforce.
- We are a signatory to the Social Mobility Pledge, committing to social mobility through outreach, access and recruitment.

Development and training

We are committed to developing new talent, providing our colleagues with the skills and capabilities to support them in fulfilling their career aspirations. In 2022, we delivered 2,352 total colleague training hours, and 12,415 digital learning hours using a blended learning approach. We have a proud history of investing in new talent by providing internships, graduate programmes, work experience and apprenticeships – our longest-running apprenticeship schemes at Drax Power Station were established almost twenty years ago. Since 2006 we have hired 186 apprentices in total and have held a 91% retention rate of apprentices completing the programme (compared to a national acerage of 57.5% in 2020/2021). Currently, in the UK we have 54 apprentices with another 63 colleagues working on apprenticeship qualifications in the business. We also have placements for interns and graduates.

In 2022, we launched our Senior Leadership Development offering, with 88 Senior Leaders who participated in 2022. Our senior leaders continue to participate in our Inclusive Leadership Programme, which supports managers in helping to improve diversity outcomes, and the course received 91% satisfaction feedback. We plan to expand our Inclusive Leadership Development programme in 2023 with participation by colleagues in North America. Our high-potential Future Creators programme, launched in 2019 and designed to support the accelerated development, retention, and growth of our future leadership pipeline, continues to be successful. To date, 49 colleagues have completed it and 86% of all of the participants have either moved up a career level or moved into broader roles since joining the programme.

Drax and Selby College regularly host Science, Technology, Engineering and Maths (STEM) events to inspire young people to enter careers in STEM. In 2022, over 170 Year 9 pupils from four different local schools took part in a range of fun and engaging STEM activities, introducing them to future skills, training, and employment opportunities. The event engaged analysts and engineers from Drax's graduate and apprenticeship schemes to lead some of the sessions, as a way to inspire the next generation and show them the career opportunities available to them.

Community and charity

At Drax, we care about being a socially responsible business. By making a positive contribution to the communities in which we operate, and by supporting good causes, our intention is to play a part in helping to shape a better future for people living in areas which have a connection with one of our businesses.

As part of that work, we deliver charitable donations and employee volunteering initiatives. In 2022, Drax UK employees gave £14,422 and Drax UK gave £592,372 in donations, including through employee match funding, payroll giving, our community fund, community partnerships and fundraising days.

We offer employee volunteering days, providing one day of paid time per year to take part in volunteering activities. In 2022, 59 volunteering days were completed across Drax Group. Examples of employee volunteering included supporting primary schools, vaccine clinics, and refugee centres.

Being a good neighbour

Drax strives to be a good neighbour and is committed to playing a positive role in the communities in which it operates. Drax does this through a combination of community outreach initiatives and grant funding for local projects and programmes.

In 2022, Drax Group donated £843,561 to support 225 community initiatives (this includes the Drax UK figure of £592,372 on the previous page). For example, in the US we donated $10,000 to environmental group Ouachita Green in Louisiana to support community improvement efforts in Ouachita Parish, close to our Monroe office. This donation supported projects such as planting oak trees to replace those damaged in storms.

In the UK, Drax Power Station donated £15,125 to Selby High School as part of a five-year programme to supply laptops to each annual intake of Year 7 pupils from low-income families. The pupils are able to use the laptops throughout their time at the school, increasing their access to technology to support their learning.

In Scotland, we have been supporting the Galloway Glens Landscape Partnership in and around the Water of Ken and River Dee. This project aims to connect people to their heritage and support modern, rural communities close to our Galloway Hydro Scheme to secure a prosperous future. For example, we conduct and participate in nature-related research trials and restoration projects, and support community events.

We have included a community section within the newly developed ESG dashboard. It measures our engagement with the community and will be used to evaluate our progress. In 2023, we intend to launch the new Drax Foundation to invest in our communities through multi-year funding for non-profit organisations. These organisations will deliver improved access to STEM education, skills development for underserved communities, or benefit the natural environment. We expect to work collaboratively with representatives from our local communities to create Action and Engagement Plans, to ensure we are listening and responding to local needs. You can read more about the Foundation on page 32.

Our Skylark Nature Reserve is a 500-acre site near to both the power station and the village of Barlow, Selby. It includes a woodland area, wildflower meadow and over 100 species of wildlife, including endangered species. Our Skylark team work with ecologists on conservation work and host visits from local schools.

Engagement with our suppliers

Our Buying teams and the Responsible Sourcing team manage our engagement with pellet suppliers to Drax Power Station. They work closely with the Industry Frameworks and Supply Chain Compliance and Business Ethics internal teams at Drax.

The Responsible Sourcing team's first line of engagement for biomass suppliers is through our Sustainability Data System. This questionnaire-based system assesses the risks associated with suppliers based on their answers. For most of our pellet suppliers at Drax Power Station, we also use Sustainable Biomass Program (SBP) certification (97% of volume in 2022 was SBP-compliant). This helps ensure the biomass we receive at Drax Power Station meets our requirements. For non-SBP wood pellet suppliers to Drax, we appoint third-party auditors. All biomass contracts supplying to Drax Power Station must comply with the Drax Group Supplier Code of Conduct (covering issues such as human rights, modern slavery, anti-bribery and corruption and financial crime) and our sustainability requirements. A breach of these obligations can, if not corrected in a satisfactory manner, lead to the termination or suspension of a relationship.

We also commission independent risk reports to help us identify risks and establish mitigations that we can incorporate into our supply contracts. Beyond this, we are further developing our engagement with our pellet suppliers to Drax Power Station. These activities will include:

- Development of a supplier risk assessment
- Design and implementation of supplier scorecards
- Regular visits to each supplier's operational sites, and catch-up video calls
- Hosting webinars, open days, site tours, training and networking events
- Active participation in industry conferences and events

Ethics and integrity

At Drax, we are committed to conducting business ethically, with honesty and integrity, and in compliance with relevant laws and regulations. We do not tolerate any form of bribery, corruption, human rights abuse, or other unethical business conduct.

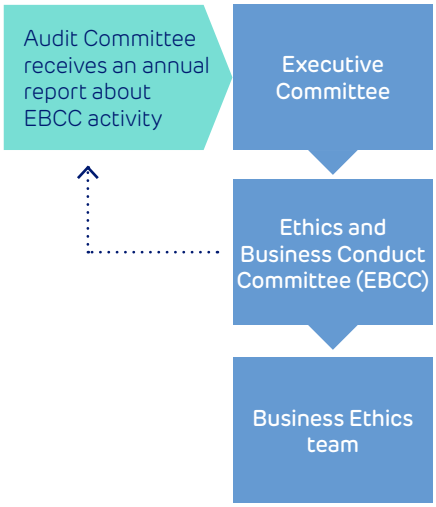
Governance of Ethics and Business Conduct

Everybody at Drax is personally responsible for ethical business conduct. Managers are responsible for demonstrating leadership on ethical matters and supporting their teams to apply our ethical principles.

Sustainable Development continued
People Positive

Business Ethics Documentation Framework

Our business ethics documentation framework consists of principles, policies, and guidance.



The **Ethics and Business Conduct Committee (EBCC)**, a sub-committee of the Executive Committee, oversees our business ethics programmes.

The EBCC comprises senior leaders, meets quarterly, and was chaired by the Chief Financial Officer during 2022 until November, when the Group General Counsel formally assumed this role following ExCom approval.

The EBCC serves as an escalation route for higher risk ethical decisions, which is supported by an agreed Escalation Protocol.

The Audit Committee provides an additional layer of oversight, receiving an annual summary on EBCC activity. It also receives quarterly updates on Speak Up reports.

Our Business Ethics team takes steps to understand our risk profile. The team also works on developing, deploying, and maintaining the associated policies, procedures, awareness raising communications and training materials. In addition, the team monitors and evaluates compliance and investigates potential breaches of policy. Our Internal Audit function provides assurance on the robustness of our programmes. Our Anti Bribery and Corruption programme was the most recent to be audited (in September 2022).

Drax Code of Conduct

The principles are set out in our Drax Code of Conduct (Drax Code), which outlines our approach of 'doing the right thing', and identifies the behaviours expected from employees and contractors on a broad range of topics, such as ethical behaviour, health and safety, and whistleblowing. The importance of complying with policies and guidance is integral to the Drax Code, which includes a series of embedded training videos. The consequence of failing to comply with the Drax Code is clearly articulated in the Code itself.

Business Ethics policies and guidance

Our business ethics policies and guidance relate to:

- Anti-Bribery and Corruption
- Anti-fraud
- Corporate Criminal Offences (Anti-facilitation of Tax Evasion)
- Fair Competition
- Financial and Trade Sanctions
- Human Rights
- Privacy
- Speak Up (Whistleblowing)

We reviewed each of these policies and the Drax Code in 2022.

A series of guides support the above policies. Some of these guides are subject-specific (for example, Fair Competition), others span multiple policies (for example, Ethical Due Diligence).

In 2022, the Drax Code, Anti-Bribery and Corruption Policy, Privacy Policy (and training), and a guide summarising all Business Ethics policies were deployed as mandatory reading to colleagues in Canada. This formed part of wider integration activities into the Drax Group Policy Framework. Other Group colleagues received annual eLearning refreshers on the Drax Code and Privacy. Additional training to certain 'at higher risk teams' was also provided throughout the year on other Business Ethics related topics.

As a result of our expansion and opening an office in Japan, integration planning activities for Drax Asia also commenced in 2022, with an employee handbook to be developed in 2023.

Employees completed Code of Conduct e-learning

99%

Employees completed an Annual Business Ethics Declaration

86%

Note: Excludes employees on long-term absence from Drax during the declaration period, and does not include colleagues based at our Princeton and Japanese sites who joined the business during 2022.

Drax Supplier Code

Our Supplier Code sets out the commitments and standards we expect from our third parties, and any subcontractors they use, in relation to working for Drax. The Supplier Code, which was reviewed and updated in 2022, includes details of how any third party can 'speak up' about a concern over non-compliance with the Supplier Code.

During 2022, we continued to roll out our Supplier Code to relevant third-party suppliers, incorporating it into the associated contracts by means of specific business ethics clauses (including a termination clause for serious breach).

We take a risk-based approach to ethical due diligence, with appropriate suppliers being subject to the relevant checks prior to on-boarding. Our due diligence system enables the continual monitoring (i.e., in relation to international sanctions, regulatory enforcement action and as relevant, negative media) of suppliers during contract lifecycle. When concerning alerts are raised, they are investigated and, where appropriate, escalated to the Ethics Business Conduct Committee (EBCC) for consideration.

Business Ethics programmes

Supply Chain Human Rights (SCHR)

Drax has been a signatory of the UN Global Compact (UNGC) for five years and has embedded the ten principles of the Compact through our policies, culture, and ways of working. We also participate in the UNGC's Modern Slavery Working Group.

We set out our human rights commitments in our Human Rights policy, the Drax Code, and our Supplier Code. Our Human Rights policy and codes are publicly available.

We have a long established cross-departmental SCHR Working Group, which reports quarterly to the EBCC. You can find more detail about the activities of the Working Group in our Modern Slavery Statements.

Anti-Bribery and corruption (ABC)

We have a zero-tolerance approach to bribery and corruption. Our ABC programme is based on 'Adequate Procedures' guidance published by the UK Ministry of Justice and the EBCC oversees it (along with all other business ethics programmes). In 2022, our ABC programme was subject to internal audit, with controls deemed to be appropriate and working effectively to manage risks. This aligned to the internal risk assessment that was conducted in 2022. In 2023, we will be focused on addressing the due diligence related recommendations from the audit.

Fair competition

We are committed to conducting our business in accordance with all applicable fair competition laws and have adopted a zero-tolerance approach to any anti-competitive behaviour or activity. Our Fair Competition programme now covers UK competition law, US anti-trust law and Canadian laws, and includes mandatory e-learning for 'at higher risk' teams. During 2022 we engaged lawyers to provide an external risk assessment of the programme which they deemed as satisfactory ('green' traffic light rating).

Data privacy and security

The Data Protection team manages our Privacy programme. We take seriously the privacy and security of the personal data we control, working closely with our people, customers and third parties.

In 2022, the Data Protection team completed the annual review of policies and notices to confirm they remain in line with prevailing legal and regulatory requirements. The updates encompassed new jurisdictions where the group operates (i.e., Canada and Japan).

During 2022, 14 reports raised across internal and external Drax channels were managed under the Speak Up programme.

We listen carefully

New system improvements were implemented to third-party onboarding for Data Protection and Information Security Due Diligence in the UK, with plans to roll out across other jurisdictions in 2023. These changes provide that contract assessments take place on the inclusion of the correct clauses supplied to the Procurement team. Other improvements include refresher training on data protection topics, improved working practices with the security function, and continued education within the Data Protection team.

Data Protection investigations into potential data breaches were investigated in a timely manner, with good support from operation teams. In some cases, timely resolution included sending a notification to relevant authorities if necessary (such as the Information Commissioners Office).

Individual rights requests from customers and employees were processed within required timescales, along with requests made by appropriate authorities (such as the Police).

Speak Up (whistleblowing)

We are committed to transparency, openness, and continuous improvement. We encourage those working for and on behalf of Drax, and our third parties, to raise genuine concerns (via our reporting channels) about practices that could breach laws, regulations, or our own ethical standards.

Drax has a zero tolerance of retaliation or victimisation. We have processes in place to apply appropriate consequences should an individual retaliate against, or victimise, a reporter in any way.

Of the reports raised (or carried over and closed out) in 2022 and considered by the Board, several related to safety standards and practices. Concerns were also raised about inclusivity and standards of behaviour.

The Board sought action by management to address the matters raised, where substantiated, in addition to an assessment of the underlying causes. This involved Non-Executive Directors participating in additional discussions with management on potential initiatives and programmes.

Four matters raised in 2022 remain under investigation at the time of this report.

For more information, please see the Corporate Governance section on page 100.

Corporate Criminal Offences (CCO) (Anti-facilitation of Tax Evasion)

Our ethical due diligence and payment procedures have been set up to facilitate the conduct of business which is compliant with applicable tax laws. These procedures are subject to regular internal audit.

In 2022, we aligned our documentation for Canadian colleagues.

Financial and trade sanctions

Our ethical due diligence and contracting processes include the consideration of financial and trade sanctions risk. Risk-based monitoring of counterparties is also in place. An assessment of the Financial and Trade Sanctions policy programme in the second quarter of 2022 found the controls to be appropriate and working effectively.

There was heightened sanctions-related activity in 2022 due to the Russian invasion of Ukraine. The Financial and Trade Sanctions policy, coupled with the work of our Business Ethics and Legal teams, supported an effective response.

Non-financial information statement

We have summarised our policies and disclosures in relation to non-financial matters, in line with the Non-Financial Reporting (NFR) requirements of the Companies Act 2006.

Drax is a participant of the United Nations Global Compact (UNGC) and this report forms our UNGC Communication on Progress. We have mapped the NFR requirements to the four issue areas of the Ten Principles of the UNGC. Except where indicated as an internal policy, all policies and codes are available on our website.

Sustainable Development continued
People Positive

Non-financial information statement

UN Global Compact	Non-Financial Reporting requirement	Policies, due diligence processes and outcomes	Page
Environment	Environmental matters	Group Environment policy	
		Group Climate policy	
		Sustainability policy	
		Responsible Sourcing policy	40
		Carbon emissions	61
		Nature Positive	63
		Environmental management	50
Labour	Employees	Code of Conduct	72
		Supplier Code of Conduct	72
		Group Safety, Health and Wellbeing policy	67
		Human Rights policy	
		Gender Pay Reporting	
		Safety, health and wellbeing	67
		People, culture and values	105
	Social matters	Community and Charity policy (internal policy)	
		Positive social impact	66
Human rights	Respect for human rights	Supplier Code of Conduct	72
		Human Rights policy	
		Modern Slavery Act statement	
		Ethics and integrity	71
Anti-corruption	Anti-corruption and anti bribery matters	Code of Conduct	72
		Anti-Bribery and Corruption policy (internal policy)	
		Ethics and integrity	71
	A description of the Company's business model	Business model	8
	A description of the principal risks	Climate-related financial disclosure	52
		Principal Risks and Uncertainties	90
	A description of the non financial key performance indicators	Remuneration committee report	127
		ESG data supplement 2022 – Drax website	

ESG Summary – ratings

A complete summary can be found in our ESG Supplement on the Drax website

B

CDP Climate Change

In 2022, Drax Group plc received a score of B (on a scale of F – A) in the Climate Change. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Please see the CDP website for further details.

B

CDP Forests:

In 2022, Drax Group plc received a score of B (on a scale of F – A) in the CDP Forests. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Please see the CDP website for further details.

AA

MSCI:

In 2022, Drax Group plc received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. The use by drax group plc of any MSCI ESG research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Drax Group plc by MSCI. MSCI services and data are the property of MSCI or its information providers and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

B

ISS:

As at 21/02/2023, Drax Group plc has a ISS Corporate Rating of B- Prime (one a scale of D- to A+). Corporate Rating prime status is awarded to companies with an ESG performance above the sector-specific Prime threshold.

62

Moody's:

In 2022, Drax Group plc received a score of 62 from Moodys ESG Solutions (on a scale of 0 to 100, with 100 being the highest score).

25.9

Sustainalytics:

In 2022, Drax Group plc has a Sustainalytics ESG Risk Rating of 25.9 (on a scale of Low Risk 0 to High Risk 100).

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

The assessment of viability was led by the CEO and CFO, in conjunction with management teams, and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board considered the principal risks faced by the Group, financial forecasts and sensitivities, availability of funding and the strength of the Group's control environment. Detail was also provided on longer-term risks.

Assessment period

The Board determined to conduct this assessment over a period of five years (2021: five years) considering:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a one-year period in detail, before extending into the medium term. Five years is considered to be an appropriate mid-point in this range, when considering length of forecast and expected accuracy over the forecast period and this time period receives specific focus from the Board.
- Within the forecast period, liquid commodity market curves and established contract positions are used. Liquid curves typically cover a one to two-year window and contracted fuel commitments with third parties extend out to five years. The Group's foreign exchange exposure is actively hedged over a rolling five-year period. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- The Group benefits from the stable and material earnings stream available from current subsidies until 31 March 2027. In the period beyond current subsidies the viability modelling assumes that Drax Power Station runs on a merchant basis.
- A significant proportion of the Group's debt facilities mature in this period, with 91% maturing in the five-year window.
- There is limited certainty around the Group's markets and regulatory regimes. However, the Board has assumed no material changes to the medium-term regulatory environment and associated support regimes beyond those already announced at the date of this report.

The business considers longer-term forecasts for other purposes, including value in use analyses and estimates of useful economic lives, in line with the requirements of accounting standards and as set out in note 2.4 to the Consolidated financial statements.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 77 to 91 have been considered over the viability assessment period. The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise unmitigated. The impacts were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process.

The Group has a proven record of rapidly adapting to changes in its environment and deploying innovative solutions to protect its financial performance. Previous adverse events have arisen and provided challenges which tested the ability of the Group to deliver on its targets but, on each occasion, it has been able to respond positively.

Relevant principal risks

The principal risks with the potential to exert significant influence on viability are considered to be: trading and commodity, political and regulatory, biomass acceptability and plant operations
A significant adverse change to the status of each risk has the potential to place material financial stress on the Group. As described on pages 77 to 91, some of these risks have increased during 2022, as market conditions and commodity prices have continued to be highly volatile.

A summary of the scenarios modelled can be seen below. In addition to modelling the impacts on a standalone basis, severe but plausible scenarios that included a combination of unforeseen plant outages, adverse movements in commodity prices and reductions in subsidy income were considered.

As part of its review of principal risks and uncertainties, the Group considered risks related to climate change. This review concluded that such matters remained low risk to the Group over the period that viability has been assessed. In particular, the work performed over climate related risks, as part of the TCFD process (see page 52), and in our impairment analysis, suggests that climate change does not currently present a significant threat to viability on a net basis, notwithstanding the changes noticed by the business in weather patterns, as noted in the review of principal risks on page 77.

The most likely way in which climate change risks could manifest is through a failure in plant operations, either in the Pellet Production or Generation businesses. The impact of these scenarios is included in the analysis as noted in the table below and further information is contained within note 3.8 of the financial statements.

The outcomes of this analysis indicated that the Group would be able to withstand these scenarios without compromising upon its ability to meet liabilities as they fall due. This is further considered in the 'Review of financial forecasts' section below.

Principal risk	Description of scenario modelled	2023 impact >20% of opening cash and committed facilities?
Trading and commodity	50% power price downturn	No
Political and regulatory/ biomass acceptability	Zero ROC recycle value after CP22	No
	20% increase in biomass costs to produce	Yes
Plant operations/ Climate change	+10% increase in biomass forced outage rate	Yes
	90-day outage on ROC unit (in 2023)	Yes
	Failure of a large supplier to deliver	Yes
	Pellet production volume decrease of 7%	No
Severe but plausible case	**Combination of the scenarios above**	**Yes**

Viability statement continued

Consideration of other risks

The remaining principal risks, including transitional impacts of climate change, were considered and were not deemed to present a significant threat to viability over the assessment period. The impact of increased expenditure or a loss of margin as a result of one of these risks (e.g. a cyber attack resulting in disruption to planned generation) can be inferred from the scenarios already modelled.

If the Group is not successful in achieving its strategic aims, then this could pose a threat in the longer-term. However, analysis of this risk suggests that this would materialise beyond the assessment period, and therefore consideration has been presented in the longer-term risks section below.

Longer-term risks

Considering a time horizon extending beyond the viability assessment period, the two principal risks which are believed to be most significant are climate change and strategy.

Climate change could have a physical impact via an increase in the frequency of extreme weather events, leading to sustained reduced profitability for the Group because of supply chain disruptions. In addition, as the speed of transition to lower-carbon/net-zero increases there is a risk that new policies and regulation impact the Group's operations or plans. However, climate change also provides companies with an opportunity. For more information on climate-related risks and opportunities, please read the TCFD section on page 52.

Failure to deliver on our strategic objectives could also pose a threat to the Group over the longer term. The achievement of these objectives is forecast in the period beyond the assessment period. The models used to assess viability are based on the analysis required by IAS 36, and therefore exclude enhancement capital expenditure and the associated cash inflows. An example of such inflows and expenditure is for future BECCS projects.

If returns achieved from strategic initiatives were significantly below forecasts then, given the level of capital expenditure required to complete the plans, this could present a risk to the Group. However, a detailed analysis of the returns achievable, including reasonably possible downside scenarios and potential impacts on viability, would be performed ahead of any final commitment by the Board to progress each initiative, in line with our long-standing disciplined approach to capital allocation.

Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in January 2023. It is built by business unit and includes growth assumptions appropriate to the markets each business serves. Climate change is also factored into these forecasts, as, for example, forecast future energy prices are based on decarbonisation targets committed to by the UK Government.

The Plan includes assumptions, the most material of which relate to commodity market prices and levels of subsidy support available through the generation of biomass-fuelled renewable power. It is underpinned by the earnings of the biomass generation units, albeit these reduce in the model at the end of current subsidies in early 2027. The impact of the Energy Generator Levy announced in November 2022 has been considered when preparing financial forecasts and sensitivities.

The Plan is subject to stress testing, which involves the construction of reasonably foreseeable scenarios, including those aligned to the principal risks (described above) which test the robustness of the Plan when key variables are flexed both individually and in unison. Where such a scenario suggests a risk to viability, the availability and quantum of mitigating actions is considered.

As part of stress-testing the Plan, a 'severe but plausible' scenario was constructed and assessed. Rather than a single event, the Board considers the most significant downside scenario that could reasonably arise in the assessment period to be an aggregation of incidents either in a short timeframe or repeatedly during the period. Further detail is contained within the 'Relevant principal risks' section above.

The severe but plausible case considered the impact on earnings, cash flow and net leverage resulting from incidents including unexpected generation (+10% increase in biomass forced outage rate) and pellet production outages, adverse movements in commodity prices and a loss of ROC income during the period. Whilst the outcomes from this scenario were significant, they indicated that the Group should continue to operate within the covenant restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due. The final column of the scenarios table indicates the scale of the impacts.

Potential mitigating actions were also considered. Such mitigating actions included potentially reducing levels of capital expenditure and dividend payments if required. The impact would also be partially mitigated through the Group's ability to trade effectively in volatile markets, use of existing committed facilities, the Group's insurance arrangements and reductions in other expenditure.

Availability of adequate funding

The Group's current borrowings are set out in note 4.2 (page 224). The Board expects these facilities, along with cash flows generated, to provide adequate levels of funding to support the execution of the Group's Plan.

Facilities totalling c. £1.2 billion, excluding RCFs, mature during the assessment period. The base viability assessment assumes that these are repaid as they fall due or prior to that, predicated on no strategic enhancement expenditure being included in the model, as discussed above. In the severe but plausible case the facilities are forecast to be extended based on expected rates achievable in the current environment.

At 31 December 2022 the Group had total cash and committed facilities of £698 million, see note 2.7 on page 208. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the assessment period under a range of scenarios.

The Board is confident that the Group has access to a range of options to maintain a diverse and well-balanced capital structure.

Expectations

Based on its review, the Board is satisfied that viability would be preserved in a range of scenarios, with various mitigating actions available to manage the risk, should they be required.

Taking all of the above into account, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Principal risks and uncertainties

The effective management of risk supports the delivery of our strategy

Identifying, assessing, and managing risks across the Group is an integral part of enabling an informed assessment of the potential challenges in the delivery of our strategy. The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to identify and manage all key risks in accordance with policies and processes approved by the Board.

Risk appetite

The risk appetite is the level of risk that the Group is prepared to tolerate in seeking to realise its business objectives. The Board determines the risk appetite of the Group to ensure the potential impact of both current and emerging risks is considered and appropriately managed, to increase the likelihood that the Group's business objectives can be achieved, whilst seeking to minimise the threat of adverse impact to the financial and operational performance and the prospects of the Group.

Risk appetite therefore informs the expected behaviours from our Board, senior executives, colleagues, contractors, and partners. This helps in determining the investment likely to be required to support risk management activities and an appropriate risk-balanced approach to carrying out our plans. Risk appetite can vary depending on the nature of the risk, the expected impact of that risk, the extent to which the risk is foreseeable and the potential benefits to the Group and its stakeholders.

Some parts of the Group's operations reflect high inherent risk while also providing the opportunity for potential commercial gain. For example, trading in commodities, where the Group has developed a commercial strategy that is designed to manage the Group's exposure to volatility in commodity prices whilst also reflecting the Group's risk appetite in this area. We deploy forward hedging strategies which seek to manage the volatility of commodity prices to help limit the Group's exposure to the uncertainty of future adverse swings in commodity prices, whilst also acknowledging that this same market volatility provides an opportunity for financial returns. This is an area of risk which experienced material change in 2022 and we explore the issues and challenges associated with this risk on page 87.

The risk management approach reduces, rather than eliminates, the risk of failure to achieve business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss. For example, in recent years the business has become increasingly aware of changes in weather patterns which, alongside other climate-related risks, have become more impactful on our business. As a result, we continue to recognise a Climate Change Principal Risk. Through our analysis of the underlying climate risks, we seek to identify material challenges to the business which might arise and consider how we should respond to both physical and transitional climate risks. In so doing we seek to better understand the emerging and potential future threats against the resilience of our business and operations to reduce the adverse impact which might arise for our people, our assets, our ability to operate day to day and our financial performance.

Risks are assessed on a gross basis, a net basis after mitigating controls have been considered, and a target risk level reflective of the Group's risk appetite.

Drax Group plc Board		Audit Committee	External audit
Group Executive Committee			
First line of defence	**Second line of defence**	**Third line of defence**	
Management of Risk Controls	Develop a Risk Management Framework	Internal Audit	
Internal Controls	Provide Independent Oversight of Risk	Independent Assurance of Risk Management Framework	
Management Controls	Compliance		

Principal risks and uncertainties
continued

Risk management governance

The risk management governance structure includes the Executive Committee (from which owners are identified to be accountable for each Principal Risk) and the Group's risk management committees who have responsibility for:

- Regularly assessing and understanding the risks that may impact our business to ensure any new, current or emerging risks are managed within the defined risk appetite and limits of the business.
- Reviewing changes in the internal business and external macro environment and responding appropriately.
- Driving completion of the actions required to improve the mitigation of risks and where possible reduce risk exposures to target levels.
- Driving an appropriate risk management culture that promotes and creates balanced risk-taking behaviour and clear accountability.
- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group.

In line with good governance, the risk management committees at the business unit and Group function level undertake regular reviews of operational and financial risks, receiving reports from subject matter specialists and risk owners reflecting their technical knowledge. The Executive Committee undertakes deep-dive reviews of all the Principal Risks through an annual cycle and receives reports from the risk management committees and Principal Risk owners. Under the guidance and challenge of the Audit Committee, management undertake a process that targets continuous improvement with regards to risk management including a quarterly update being provided at each Audit Committee meeting on proposed enhancements. During 2022, as part of their annual internal audit plan, KPMG completed a maturity assessment of the Group's risk management framework as a result of which no high priority actions were identified.

Group approach to risk management

The Group has a Risk Management Policy, approved by the Board, which defines its approach to risk management. The key elements of the policy are detailed in the diagram below:

Identification

Senior leadership and risk owners are collectively responsible for the identification of risks with the potential to threaten the achievement of strategic objectives.

Assessment

Senior leadership and risk owners assess likelihood and possible impact of risks occurring using the Group's risk scoring methodology.

They also seek to ensure appropriate mitigating controls are in place to manage identified risks to an acceptable level aligned to risk appetite and target risk.

Governance

Risk management committees undertake regular risk reviews and receive reports from business units and risk owners reflecting their specialist areas and technical knowledge.

Monitoring and Reporting

The Executive Committee undertake deep-dive reviews of each Principal Risk on an annual cycle and receive reports from the risk management committees and Principal Risk owners.

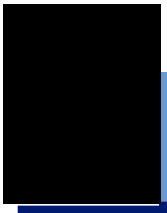
The Audit Committee and the Board review the suitability and effectiveness of risk management processes and controls. They also review and challenge the proposed disclosures prepared by management on risks to consider whether they are fair, balanced and understandable, provide adequate links to the Group's strategy (and the ability to realise objectives over the near and longer term) and reflect adequately wider macro and emerging threats.

Emerging Risks

In addition to these reviews, risk owners, risk management committees, the Executive Committee, and the Board undertake holistic reviews to identify emerging risks and consider the appropriate response. This involves judgement and is undertaken through gathering the views of key internal stakeholders including the Executive Committee and Board members who bring to bear significant levels of technical knowledge, industry experience and economic awareness. Where appropriate, this may also involve the views of external experts or stakeholders. For example a review of the Group's physical climate risks was undertaken by Atkins, a third party consultant, during the year.

As a result of this, a new emerging risk was identified – the significant levels of construction which will be required in future periods to deliver strategic objectives. In addition to ongoing capital expenditure on the OCGT projects, and investment in the expansion of existing and new North American pellet plants, the business is approaching a pivotal point in relation to options for BECCS development, and the risks relating to physical execution are becoming more important. Whilst work continues to ensure an economic business model can be established for UK BECCS, as outlined further on pages 16 and 82, initial preliminary works to enable the project at Drax Power Station are commencing.

This exposes the Group to new risks associated with the execution of a significant programme of work, dependent on supply chains, availability of skills in the labour market, and the other operational and safety risks associated with large scale construction. As a result, the key controls in operation to mitigate these risks are undergoing review to ensure they are sufficient and effective. In conjunction with this, the level of assurance obtained over the design and operation of these controls is also being considered. As these projects progress through 2023, 2024 and 2025, and final investment decisions are expected to be taken, the Board will consider whether this represents a new Principal Risk to the Group.



Vanessa Simms, Audit Committee Chair

On behalf of the Board, the Audit Committee reviews the effectiveness of the system of risk management and internal control. The Committee takes a keen interest in understanding the evaluation of the Group's Principal Risks, to ensure that internal controls remain appropriate and that the Group's overall exposure to risk aligns with the Board's risk appetite.

You can read more about how the Committee oversee Principal Risks on pages 116 to 126.

Internal control

The Group has a well-defined system of internal control, supported by policies and procedures, documented levels of delegated authority which support decision-making, and accountability by management across the Group. These internal controls operate as important mitigations of the risks identified via the Group's risk management processes. Therefore, the effective design and operation of these key internal controls is critical to the achievement of the Group's strategic aims.

Management maintain an assurance map assessing the level of assurance obtained for each of the Group's Principal Risks across the various lines of defence, as shown on page 77. This enables the Audit Committee to debate and challenge whether sufficient assurance is in place over the Group's system of internal control. Where a risk is identified as having emerged or increased, the level of assurance obtained over the respective mitigating controls may need to be enhanced in response. For example, the identification of capital construction as an emerging risk has led to the inclusion of an internal audit addressing BECCS readiness in the 2023 internal audit plan.

The Audit Committee approves and implements a programme of internal audits covering various aspects of the Group's activities. Refer to page 126 for further information. This programme evolves, based on an assessment of the key risks of the Group.

The majority of internal audits are performed by KPMG, who provide a fully outsourced internal audit function to the Group, reporting to the Audit Committee. For specialist areas, an expert auditor is employed such as the use of DNV to undertake internal audits in respect of Health and Safety. The findings and recommendations from each internal audit are distributed to members of the Executive Committee and the Audit Committee as a whole. Each report includes management's responses to the findings and recommendations, and details of the actions that management propose to take. At each monthly meeting, the Executive Committee considers the status in responding to and closing recommended actions.

In addition, the Audit Committee receives a quarterly update report on the status of the internal audit plan and any recent findings. Internal audits are augmented by additional internal control checks which are performed by operational management, and which are considered by senior management and the Audit Committee.

Where weaknesses are identified, these are investigated and the impact on the business is identified, with remediation actions established. This is also reported to the Audit Committee. None of the findings reported during 2022 were individually or collectively material to the financial performance, results, operations, or controls of the business.

Based on the assessments undertaken by each of the Executive Committee and the Audit Committee during 2022, and considered at the meeting of the Board held in finalising the Annual Report and Accounts in February 2023, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control. For further information on the work of the Audit Committee see pages 116 to 126.

Principal risks and uncertainties continued

Overall risk assessment

The Group has identified nine Principal Risk categories which have the potential to have a material adverse impact on the operational or financial performance of the Group. These and other key risks are assessed within an established programme by which management, the Executive Committee and the Board consider how risk and the Group's ability to respond should evolve.

The Board continued to perform a robust assessment of Principal and emerging risks. As part of its year end processes, the Board considered reports from management reviewing the Principal Risks and uncertainties, and how these had evolved during the second half of 2022. This review took account of the ongoing Russia-Ukraine conflict, the volatility in the energy market and the potential impact on future energy strategy. Thought was also given to the cost of living crisis and associated government responses such as the Energy Bill Relief Scheme and Electricity Generator Levy, as well as the agreement reached with National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023. All of these areas are discussed in further detail below.

The threat of cyber-attack is evolving, and managing this risk requires careful understanding and assessment of the threat. Geopolitical tensions have in the past been known to result in increased cyber related incidents, and the Russia-Ukraine conflict is considered to have increased the Group's risk exposure to attacks, state-sanctioned or otherwise, on our systems. Despite the significant work and investment undertaken to further enhance security over our systems, this heightened external risk environment poses an increased cyber risk which may result in operational and financial impacts and regulatory non-compliance.

Consistent with the view communicated in Drax's 2022 Half Year Report, increased energy prices expose the business to a heightened financial cost should an unplanned outage occur on a plant, as the business would incur the cost of a significantly heightened market price to buy back the volumes contracted but undelivered. Whilst we do not believe the integrity of the Group's plant and machinery, and therefore the likelihood of an outage, has increased, the financial impact of such an occurrence has increased and could have a material impact on the Group's results.

The two material increases in risk noted above are discussed further below under 'Cyber-security' and 'Cost of living and energy market conditions'. Additionally, the Information systems and security and Trading and commodity risk disclosures on pages 91 and 87 respectively, provide detailed descriptions of the risk, impact and key mitigations associated with both threats.

Despite there being some further, less significant, increases in the Group's other Principal Risks, as discussed further below, the Board is satisfied that the Group's remaining Principal Risks are materially unchanged.

Russia-Ukraine conflict

Russian forces invaded Ukraine in February 2022, which not only created a humanitarian crisis but led to extensive economic impacts felt across the globe, leading to potential risks to the business summarised below:

Biomass pricing and availability

The conflict is testing global supply chains and reinforces the importance of resilience in the Group's biomass sourcing processes. As the volume of Russian and Belarusian biomass purchased by the Group has historically been very low, this line of sourcing was ceased with no significant impact on the Group's ability to achieve required future biomass volumes.

However, a secondary impact on the Group's indirect supply chains has been upward global biomass pricing pressures, as suppliers faced increased costs to procure fibre due to market shortages and inflationary pressures. The impacts of higher biomass prices are largely mitigated by our long-term hedging strategy which ensures a high proportion of the contracts in place have agreed pricing out to 2027. In addition to remaining vigilant to biomass pricing pressure, the ability of our suppliers to fulfil contracted volumes continues to be closely monitored to respond to market developments, including the impact of fibre market shortages resulting from the Russia-Ukraine conflict.

Cyber-security

The Board believes the Russia-Ukraine conflict has increased the Group's risk exposure to attacks on our systems, and those of suppliers on whom the Group relies for integrity of service. This view is supported by our engagement with a range of third parties in addition to publicly available information. The Group's Security and IT teams have conducted a thorough risk assessment of our externally facing infrastructure and have implemented a robust critical patch regime as a result of this heightened cyber-security threat. The Group also has regular updates with its regulators which allow it to assess and calibrate the level of security risk. Whilst the Group's response to the heightened risk has been robust, it is acknowledged that cyber-attacks are continuously increasing in sophistication and complexity, requiring constant assessment and response to address any vulnerabilities on an ongoing basis. Therefore, whilst actions in respect of this increasing threat have been undertaken, we recognise the scale, pace and nature of exposure also continues to evolve and responding immediately with commensurate mitigations may not always be possible.

Market volatility

The Russia-Ukraine conflict has also contributed to widespread energy market volatility and concerns over the security of supply due to the restriction of Russian gas. The resulting commodity price increases and extension of the availability of the Group's coal assets are discussed further on pages 81, 87 and 90.

Cost of living and energy market conditions

During the second half of the year, in common with other economies, the UK continued to experience increased pressure on the cost of living due to high inflation. It is expected that inflation will continue to outstrip the increase in average incomes over the coming months. Energy market pressures also continued into the second half of 2022, becoming a more sustained energy price increase. In response to this, in order to provide support to our colleagues through this challenging period, we accelerated the Group's annual pay review process by three months to take effect in January 2023. You can read more about this on page 130. These economic conditions, as well as the UK Government's response to them, create the following risks to the business:

Cash collection

We recognise that the inflationary pressures from rising commodity prices, including power, are providing challenges to consumers and in some cases causing hardship. In September 2022 the UK Government announced the Energy Bill Relief Scheme (EBRS) to support UK businesses and other non-domestic energy users by protecting them from increasing energy costs and providing them with certainty over winter energy costs. Price caps have been applied to UK customer bills from 1 October 2022 and from 1 April 2023 the EBRS will be replaced by the Energy Bills Discount Scheme (EBDS), which has been confirmed to be in place until March 2024.

We continue to monitor how wholesale power price increases are feeding through to end consumers in our Customers business. By building on the actions taken during the Covid-19 pandemic, we aim to support our customers during this challenging time by working to provide payment plans where necessary. We remain alert to the possibility that this may have an impact on our customers' ability to pay their bills, resulting in a potential financial impact of bad debt or delayed payments.

Market price volatility

What initially appeared to be temporary energy price volatility resulting from short-term pressures on supply at the start of 2022, became a more sustained energy price increase. As noted on page 87, energy price volatility exposes the Group to an increased financial cost should an unplanned outage at Drax Power Station occur. We believe that this risk is most appropriately managed through holding back a proportion of capacity as a mitigation. This would enable energy contracts to be fulfilled by an alternative unit should an unplanned outage occur. Price increases in the forward market can also present challenges in respect of liquidity and credit, requiring careful management of both ongoing exposures and collateral requirements.

Continued availability of coal-fired units until March 2023

In July 2022 the Group confirmed that, at the request of the UK Government, it had entered into an agreement with the National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency to the UK power system until the end of March 2023. The units will only operate if and when we are instructed to do so by the National Grid. Whilst this means prolonging the UK's dependence on fossil fuels, which is not aligned with the Group's strategy, we recognise that as part of the UK's critical national infrastructure, we play a key role in providing security of energy supply and take this responsibility seriously. Some of the Group's facilities and equipment relating to coal-fired generation are classed as ageing assets, given Drax Power Station was built approximately 50 years ago. Continued operation of these assets therefore brings operational risks in maintaining the availability of assets to fulfil a request to operate. The Group is also cognisant that the extended use of the coal-fired units could increase the threat of disruption to the Group's operations and supply chain from protester action. Before committing to extending the availability of the coal-fired units, a thorough assessment was undertaken to ensure these potential risks could be sufficiently managed to an acceptably low level. In assessing whether to make the units available, and after careful consideration, it was determined that a six-month extension was not expected to impact on the timing of a final investment decision or intended commissioning date for the UK BECCS project. Site preparation works for UK BECCS are ongoing and will accelerate following formal closure of the coal units in March 2023.

Energy market reform

Changes to government policy at a regional and national level in the countries in which we operate may increase the cost to operate our businesses. Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline of political and regulatory reform, as governments and regulatory bodies seek to ensure fiscal policy and regulation, including regulation surrounding biomass, remains fit for purpose.

The UK Government has opened a consultation on Review of Energy Market Reform (REMA), however it currently remains unclear the scale of the impact of any such reform. As part of their response to current heightened energy prices, the UK Government announced an Electricity Generators Levy, which will apply to the Group's hydro run-of-river and biomass generating assets under the Renewable Obligation scheme from 1 January 2023 to 31 March 2028. Refer to page 13 for further information.

Credit availability and liquidity

We are exposed to spot and forward commodity prices. High volatility may impact Drax's ability to access the market as it presents challenges in respect of liquidity and credit. This requires careful management of both ongoing exposures and potential collateral requirements under a range of scenarios. This could result in a reduction in Drax's forecast hedge levels in future years, and less certainty over forecast earnings.

Set out below are the Group's nine Principal Risks:

- Strategic
- Health, safety and environment
- Political and regulatory
- Biomass acceptability
- Trading and commodity
- People
- Climate change
- Plant operations
- Information systems and security

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk =

The Group's purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. The Group has three strategic aims that underpin its purpose and ambition as detailed in the Group's business model on page 8. Strategic risks are defined as those that could materially undermine any of the Group's strategic aims, and thereby prevent the Group from delivering its stated outcomes and fulfilling its purpose.

In 2022 the business established a strategy execution team that monitors the delivery of strategic initiatives and mitigates risks. A quarterly review is undertaken by the Executive Committee to gauge its confidence in delivery and determine the actions to be taken should course correction or additional risk mitigation be required.

Strategic pillar: To be a global leader in sustainable biomass pellets

Achieving a leading position requires delivering and growing our own production, at a sustainable economic cost whilst ensuring our sustainability requirements are met.

The primary objectives are to increase biomass production capacity to 8Mt p.a. and to continually improve the biomass pellet supply chain to maintain pellet costs at a sustainable economic level.

Risk and impact

- There is a risk to the availability of feasible expansion opportunities, the successful identification and delivery of initiatives to reduce the current cost of biomass, and the availability of sustainable biomass fibre.
- There is the risk that biomass does not have stakeholder support in our target markets (for example, government, investors, economic and social) leading to a lower rate of adoption than our strategic plan assumes.

Key mitigations

- Continued execution of the integrated plan to expand biomass production capacity and maintain the cost of sustainable biomass pellets at an economically sustainable level.
- The adoption of the development and execution of a medium to long-term fibre strategy as a strategic initiative.
- The identification and management of biomass acceptability as a Principal Risk as detailed on page 86.

Strategic pillar: To be a global leader in carbon removals

As a key part of our long-term strategy, Drax is developing options for Bioenergy Carbon Capture and Storage (BECCS), as a form of carbon removal. We believe BECCS could offer significant long-term value creation opportunities, in addition to being a key part of enabling not just Drax but the UK and other countries to reduce carbon emissions. To be a leader in the emerging carbon removals market, Drax is working to deliver the BECCS project at Drax Power Station and also deliver BECCS globally. This requires the development of an economically attractive business model within its target jurisdictions.

Risk and impact

- There is a risk that current or future governments do not provide the fiscal and legislative framework required to support the scale of the BECCS programme and Drax's future investment decision. This could result in the potential impairment of £24.5m of capitalised UK BECCS development costs as detailed further under critical accounting judgements on page 178.
- There is a risk that an economic business model for BECCS cannot be established, including the risk that regulatory and voluntary frameworks do not develop in such a way as to enable Drax to fully participate in these markets.
- There is a risk that Drax cannot build the right asset portfolio at sufficient scale to achieve a leading position.

Key mitigations

- Drax has established and is delivering against three strategic programmes:
  - Development of options for its UK BECCS project at Drax Power Station, and engagement with UK Government and other stakeholders to secure the right commercial model to support it. Refer also to Political and Regulatory risk on page 85.
  - Development of options for BECCS projects in other jurisdictions.
  - The proactive development and sale of carbon removal products and standards.
- These programmes build on Drax's competitive advantage, support the development of a scalable carbon removals business, and reduce the reliance on a single market and commercial model. Emerging risks associated with the development of these programmes include construction risks, referred to on page 79.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk continued

=

Strategic pillar: To be a UK leader in dispatchable, renewable power

To maintain the position as the leading provider of UK dispatchable, renewable power requires the right portfolio of assets and associated business models. These must operate within a system that values the dispatchable characteristics of those assets at the right economic levels.

Risk and impact

- There is a risk that our asset portfolio is not appropriately valued by the market, is excluded from effective participation in power markets, or might be out-performed by a future technology.
- There is a risk that Drax Power Station does not receive the right economic support post 31 March 2027 with respect to the dispatchable renewable power that it provides.
- There is a risk that unexpected changes to electricity supply and demand could reduce both demand and volatility, and therefore limit the market for dispatchable renewable assets.

Key mitigations

- We maintain and invest in our market modelling capability and embed it into planning, option assessment and test and/or cross check against third-party scenarios.
- We continue to actively engage with relevant UK Government departments and regulators in relation to a range of matters associated with power market design, and the role of dispatchable renewable generation.
- We continually evaluate the current and projected performance of our own portfolio of assets, and the value gained from changing the composition of the asset portfolio in line with the Group's view of the outlook for the market and emerging technologies.

Strategic enabler: Capital

Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required, whilst maintaining a corporate credit rating in the BB range, to support power trading and B2B energy sales to Customers.

Risk and impact

- There is a risk that the Group is unable to raise sufficient finance to fund the ongoing business or remain compliant with existing financing agreements due to poor performance, illiquid capital markets or poor credit rating leading to lack of investor appetite for the Group's credit and/or equity.

Key mitigations

- The Group's financial position including working capital and cash resources is strictly controlled.
- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group's capital allocation process provides rigour and consistency in assessing the technical, financial, and strategic justification and performance of new projects across the Group, in particular for investments in new and emerging technologies.
- We have reviewed the impact of the Electricity Generator Levy on our capital strategy and have not identified a materially increased risk.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Health, safety and environment =

Context

The health and safety of our employees and contractors, and effective management of our environmental impact remain priorities for the Group. Maintaining high operational and procedural safety standards is also an important contributor to the continued success of the business across all aspects of our activities. Safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance. Safety and environmental management are foundational to our operational philosophy, and we continue to work across the Group to identify, implement and maintain high standards supported by a positive culture of safe working. We seek to respond proactively to emerging legislation and regulatory changes in both safety and environmental aspects.

Risk and impact

- Our operations involve a range of potential hazards which could affect colleagues, contractors, others attending our sites, and the wider environment, that arise from the materials and equipment we use and the processes we perform. This includes heavy plant and machinery across our sites in the US, Canada and the UK in the manufacture, storage and transportation of biomass pellets, and the generation of electricity from different sources, including biomass and hydro. Refer to page 90 for more information.
- As we enhance and expand our safety reporting to include populations such as contractors, our TRIR has the potential to increase while appropriate mitigations are fully embedded with new workers on operational sites.
- The biomass we use to generate electricity, and the particulates that can occur if the biomass pellets degrade, are highly combustible.
- In the generation of electricity, supplied to the National Grid at up to 400kV, we operate various plants at high temperatures and pressures, as well as managing significant volumes of water used by our nine hydro plants in Scotland (for example, 79.4 billion gallons at Cruachan). These are inherent attributes of our operations which contribute to Health, Safety and Environment (HSE) risk.

Key mitigations

- Continued investment in safety equipment, environmental mitigation, and plant equipment and its regular maintenance.
- Maintaining robust management systems which are subject to periodic review, and are refreshed as appropriate.
- Careful management of the production, preparation, storage and transportation (whether within our sites, ports, or in transit between sites) to minimise the risk of fire or explosion.
- Integration of all assets into a new HSE system across all our pellet operations.
- Effective governance framework including an executive-level Group HSE Committee, chaired by the CEO, to review and challenge the management of HSE across the Group.
- Regular reporting to the Board on HSE matters as part of the CEO report. Outlining trends, incidents, and initiatives to enable the Board to understand culture, behaviours, and the status of key HSE matters.
- Development of plans to align all business units on key focus areas to drive improvement in our HSE performance, whilst building upon the existing 'One Safe Drax' vision.
- Implementation of a new Health, Safety, Environment and Quality (HSEQ) IT system for tracking and reporting events and near misses, prompt investigations, and timely implementation of corrective actions by directing attention and encouraging continuous improvement.
- A programme of training, which aims to provide colleagues with an appropriate level of competence, enabling them to contribute to the effective management of HSE risks.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Political and Regulatory

Context

During 2022, the focus of the UK Government turned to the situation in Ukraine, the cost of living crisis, and energy security. Generation from biomass has continued to play a crucial role in UK energy security, and the case for the future role of BECCS in supporting UK energy independence and its net zero ambitions has strengthened. However, the Group remains conscious of the ongoing discussion associated with biomass (refer to Biomass Acceptability Principal Risk on page 86) and the need for further commitment and financial support from the UK Government, and other critical partners, in order to deliver the decarbonisation of UK power generation and enable the Group to realise its negative emissions strategy. Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline for the UK Government's continuing review and reform of the detailed legislation and regulation that underpins the electricity market. In 2022, this included launching REMA, announcing the Energy Prices Guarantee and the introduction of the Electricity Generator Levy (EGL). January 2023 also saw the launch of the UK Government's Capacity Market consultation, seeking views on proposed reforms to strengthen the security of supply and provide greater clarity around the transition to net zero.

Internationally, the Group is entering new markets which increases its regulatory obligations and compliance challenges. This includes reviews of sustainability standards in the Group's key markets including Canada and Japan; sales of pellets into Asian markets; and the opening of an office in Japan to support these activities. Furthermore, we remain alert to the changing geopolitical landscape which could continue to impact the global energy sector.

Risk and impact

- The invasion of Ukraine by Russian forces means the Group is no longer willing or allowed to access Russian and Belarusian biomass. Whilst the historically low volumes of Russian and Belarusian material purchased by the Group means this had no significant impact on the Group's ability to source biomass, it has led to upward pricing pressures due to market shortages and associated inflationary pressures. The global biomass markets have been and are expected to remain volatile both in terms of pricing and availability.
- At the request of the UK Government, the Group entered into an agreement with National Grid to make the two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023, in response to concerns over security of supply. There is a risk that the UK Government asks the Group to extend the availability of its coal operations beyond this date, which, were it to be enforced, could materially and adversely impact the Group's renewable energy reputation and also potentially delay the timetable for UK BECCS.
- The cost of living crisis, compounded by the effects of Covid-19, is having an impact on social and economic policy as well as UK Government funding. Whilst public and political pressure to respond to the threat of climate change remains strong, it has been impacted by a reassessment of investment priorities and resulting changes to UK Government fiscal policy. This has resulted in delays to the introduction of new legislation to deliver investment frameworks that support reducing carbon emissions. This could adversely impact the investment needed to support BECCS, which may result in material delays in the ability to realise Drax's strategy around carbon removals.
- Changes to government policy at a regional and national level in the countries in which we operate may increase the cost to operate our businesses, reduce operational efficiency, and affect our ability to realise our strategy. Examples include reform to the UK legal framework following Brexit; changes to electricity market structure and the launch of the REMA consultation; network access and electric charging arrangements; environmental regulation (refer to Biomass Acceptability risk on page 86); wholesale market arrangements including impacts on liquidity (refer to Trading and Commodity risk on page 87); consumer service and affordability requirements; and the EGL.
- The global regulatory environment is evolving, which may result in additional costs and complexity. Post-Brexit reviews of regulation are back on the agenda and could lead to a divergence between UK and EU regulation and reporting requirements, further increasing our cost to operate. Our involvement in new international supply chains and pellet markets in Asia introduces additional challenges in terms of compliance, regulatory change and misalignment of standards between markets. Such complexity could increase the risk of non-compliance, regulatory investigation and enforcement action against Drax, potentially resulting in penalties/sanctions that impact anticipated returns and/or the Group's licence to operate.
- Inflationary pressures from rising commodity prices, including power, are providing challenges to consumers and in some cases causing hardship which may lead to delayed payments or bad debt. We continue to monitor how wholesale power price volatility is feeding through to end consumers in our Customers business and aim to support our customers during this challenging time, for example by providing payment plans. There is also a risk of continuing energy supplier failures from these rising commodity prices, which results in greater cost mutualisation, whereby the cost of supply failure is spread across the remaining industry participants.

Key mitigations

- We believe the impacts of higher short-term biomass prices are mitigated by our biomass hedging strategy, which ensures a large proportion of the biomass contracts in place are long-term with agreed pricing and volumes. In addition to remaining vigilant to biomass pricing pressure, the ability of our suppliers to fulfil contracted volumes is also closely monitored, due to the impact of fibre market shortages associated with the Russia-Ukraine conflict.
- Engaging with politicians and government officials, to listen to and inform understanding and perception of Drax's business. This includes our commitments on sustainability and the creation of socio-economic value (including jobs, training, and investment in communities), plus the critical role that Drax's strategy will play in supporting the UK's committed target to achieve net zero by 2050 and ensuring security of supply.
- Engaging with regulators and industry bodies to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring compliance. Working with wider stakeholders and industry associations to maintain Drax as a thought-leader on priority UK and global policy and regulatory issues.
- Exploring opportunities for the delivery of investment in BECCS globally, such as the US and the wider Asia-Pacific region. Working with leaders and key stakeholders in those regions, to identify areas of common purpose and share ideas for creating jobs, investment, and new growth opportunities. The Group's International Affairs team continues to develop our stakeholder interaction and broaden engagement in regions where we source and supply biomass.
- Confirming our compliance frameworks and internal guidance remain robust and continue to focus on best practice as regulation evolves and the business further expands its global operations.
- Investment in knowledge and experience through recruitment into the Group to best support our global operations.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Biomass acceptability =

Context

Biomass is a significant element of Drax's current business and is important in the delivery of longer-term strategic objectives, enabling the Group to meet its carbon removal target and the UK to realise its net zero target. During 2022, Drax sourced and shipped to the UK 2.5Mt of biomass for use in the operational activity of generating electricity at Drax Power Station. Furthermore, Drax enters into commercial contracts to supply biomass to third parties. The supply of 2.2Mt of biomass to third parties represented 4.7% of revenue during 2022.

High-profile campaigning by anti-biomass groups increased during 2022, with sentiment amongst stakeholders potentially being impacted. However, there continues to be clear and reiterated UK Government acceptance and recognition of biomass' important role in enabling security of supply. This is also underpinned by independent research of the contribution to be made by sustainably sourced biomass. 2023 is likely to be an important year in the development of biomass regulation and policy globally. Regulatory frameworks associated with the sourcing of biomass materials are also under development, including in some regions where we currently conduct business and others where we may seek to develop our business in the future. It is possible that future regulatory frameworks, may not align with our strategy and investment case. This could result in reduced support for certain types of biomass as a renewable energy source, increased costs of doing business, or the introduction of barriers to entry which may adversely impact our growth plans and financial returns versus expectations.

The UK Government is due to develop its positioning and publish several relevant documents over the coming months which may impact the Group's licence to operate. In Europe, the EU Commission (the primary decision-making body) will also publish an updated policy file as part of the "Fit455" package, including regulation on biomass in the Renewable Energy Directive III (REDIII). The RED file is widely considered to be market leading in terms of sustainability criteria for biomass, on which UK regulation is based. REDIII revisions may impact biomass policy decision making in the UK in the future, or in countries we supply, such as Japan, potentially restricting certain types of fibre for bioenergy. We continue to engage with UK and EU governments and other stakeholders to explain the benefits of responsibly sourced biomass and the positive impact this technology can have on the climate, nature and people.

Risk and impact

- Some parties, including certain environmental non-governmental organisations (eNGOs) continue to argue against the use of biomass. These groups seek to influence and challenge policy and law-makers, which may result in reduced political, business, public, and financial support for the benefits of biomass. 2022 saw high-profile and heightened campaigning by anti-biomass groups, including using the framework of the OECD Guidelines for Multinational Companies to challenge certain statements made by Drax.
- Biomass remains immature as a commodity market. This includes some of the regions from which biomass is sourced, processed, and shipped. The Group currently has robust supply chains in place and in order for this to continue, we will require ready access to an increasingly diverse supply of biomass.
- Drax's target is that all fibre currently used at Drax Power Station is Sustainable Biomass Program (SBP) compliant. However, SBP standards are now under revision. There is a risk that the revised standards do not keep pace with stakeholder perceptions of biomass, the needs for the Group in supporting its strategy, including under BECCS, or become unworkable or overly restrictive.
- In the UK, policy decisions and publications relevant to biomass are expected in 2023. These include the Biomass Strategy which will set out the UK Government's latest position on biomass and UK BECCS. Additionally, the UK Government is looking at policy decision making required closer to 2030, in particular how biomass sustainability can be assured when the CfD regime closes to biomass from 2027 onwards. The UK Government is also in the process of developing a UK Sustainable Finance Taxonomy, within which different technologies will be deemed as being a 'green investment' or not. If the current UK Government position supporting biomass as a renewable technology changes, this may negatively impact the Group's operations and revenues in the UK.
- In Europe, the Fit455 process continues with REDIII under revision which may adversely impact the Group's growth plans. Being outside the EU reduces the UK's influencing ability on EU biomass policy. The present draft of REDIII proposes unworkable restrictions on the use of "primary woody biomass" in Europe, which, if included in the final legislative text, would have negative impacts on the Group's ability to supply Europe with its biomass needs, risking EU energy security and the delivery of long-term climate targets.
- Reputation and market risks related to the transition to a low-carbon economy include increased activity by eNGOs, the potential for reduced investor and customer confidence, delays to our strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities, or risk from legal challenge by eNGOs to our development or operational activities) and challenges with employee recruitment and retention. Refer to People risk on page 88.

Each of the above risks could have a material and adverse impact on the Group's financial and business prospects, strategy and future results.

Key mitigations

- Engagement with stakeholders in all regions in which we operate, via a new global biomass campaign, to understand their requirements and expectations around sustainability as well as improving readiness to produce evidence of compliance.
- Proactive education of stakeholders on the science of our sustainability practices.
- Increased resource within teams to develop and maintain strong relationships with policymakers in the UK, EU, North America and Asia via targeted engagement across institutions.
- Targeted planning and engagement with the REDIII negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes.
- Where possible, seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, in support of more constructive engagement on delivering change that is responsible and sustainable. Equally, where we believe the views of eNGOs are inaccurate or misleading, providing robust challenge.
- The Independent Advisory Board (IAB) of scientists and leaders in the field of sustainability provided impartial advice and guidance relating to the robustness of our work to deliver Nature Positive, Climate Positive and People Positive outcomes throughout 2022 which will continue in 2023. Refer to page 39 for further information.
- Closer relationships forged with suppliers through the supplier relationship programme to identify opportunities to enhance actions which support sustainable and responsible sourcing strategies and biodiversity, which is integral to our philosophy.
- Scenario and contingency planning and direct engagement with voluntary certification schemes, notably SBP, at Board and technical levels to ensure revised standards are fit for purpose and to identify alternative options where necessary.
- Provided support to SBP to achieve RED II approval, affording divergent policies in UK and EU to be met through the same scheme.
- Continued assessment of new markets from which to source sustainable woody and alternative types of biomass.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Trading and commodity ▲

Context

The Group is exposed to fluctuations in a range of different commodity prices, impacting both revenue and costs. Managing these exposures, the interactions between them, and the resulting balance of opportunity and risk, is critical to delivering value. Volatility within global commodity markets was significant during 2022, bringing with it heightened risk and a need to consider potential additional mitigations.

Drax produces biomass and power with renewable certificates, and captures the market value of these commodities through both the wholesale markets and direct sales to end-users. The Group's cost base is exposed to spot and forward commodity prices and foreign exchange rates, and the liquidity of these markets, particularly, the cost and availability of third-party biomass pellets and the fibre and logistics costs of our own Pellet Production business.

Managing the volatility and liquidity risks of these markets requires careful planning. Through our portfolio strategy, we optimise our assets to maximise value within the clearly defined parameters of our risk management framework, covering each individual commodity. We use forward hedging of varying lengths to manage the volatility of commodity prices and limit the impact of these on both revenue and costs, and we have multiple routes to market to manage liquidity constraints.

Risk and impact

- Power prices can be subject to significant volatility. Short-term elevated power prices in excess of hedged rates may result in losses should an unplanned outage occur on one or more of the Group's generating units, as the Group could be required to buy back at spot (or the then prevailing market) rates which could be materially higher than the price which Drax had originally been paid for supplying that power.
- Power prices remain highly volatile after reaching unprecedented levels during 2022, creating increased market uncertainty as well as constraints on supply. This uncertainty impacted market liquidity, which is expected to continue in the longer term. Such a continuation could make it harder to achieve target hedge levels for future periods, resulting in less certainty over forecast earnings and increased exposure to volatility.
- High energy prices may cause some supply customers to change their forecast consumption. This presents challenges in managing the portfolio hedge position, and in a volatile market could result in additional costs if volume has to be bought or sold at adverse prices.
- Delivery of commercial value from the flexibility of our portfolio, and the optimisation of a complex supply chain against an uncertain running regime, requires effective execution of our trading strategy and opportunities to trade being available through sufficient liquidity. Volatility, as experienced in 2022, brings added complexity to the delivery of our strategy and increases the pressure on executing specific trades to take account of market conditions. Errors in execution, delays in carrying out planned trading or interruptions to our trading platform could all materially adversely affect the Group's performance.
- Reduced liquidity in the forward market, along with price volatility, can lead to increased market exposures. These exposures potentially reduce the market's appetite to trade further as this volatility in prices may lead to uncertainty on counterparty exposure across the market.
- Increased production costs in Drax's supply chain may impact suppliers' ability to deliver contracted biomass. This could result in additional third-party purchases in the spot market, at uncertain prices, or an interruption to forecast generation. Refer to Political and Regulatory risk on page 85.
- Disruption to Drax's biomass supply chain itself may also impact Drax's ability to fulfil its sales contracts or deliver the forecast fuel requirements to the Generation business. During 2022, we experienced instances of suppliers warning of shortages and risk in their ability to meet their contracted obligations.
- The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce due to increased competition.
- Inability to fulfil pellet sales contracts may result in an exposure to the difference between the contracted and market price of the pellets. This could result in loss of margin and profits for the Group, particularly when wider supply of pellets is restricted.
- The fibre market is very dynamic and is impacted by both our suppliers and competitors. This makes it difficult to forecast the probability and impact of associated risks. The industries that use residuals (and other fibre classes) continue to develop. Whilst biofuel technology is still an early concept it is likely that this market will develop in the longer-term, further emphasising increasing demand for fibre.
- Across the international markets we trade in, we are exposed to foreign currency exchange risk, primarily in relation to the sterling cost of pellets to the Generation business, which is typically contracted in USD or EUR.

Key mitigations

- We continue to build on our high levels of forward power hedges (sales) for 2023 to 2025, and the CfD on one of our biomass generation units reduces our exposure to volatility.
- Our UK portfolio of Industrial and Commercial electricity customers provides liquidity for forward power and renewable certificate sales through the Customers business. We maintain high hedge levels of customer sales through our power trading capability.
- We are able to regularly reforecast our supply customers' usage and realign our portfolio hedge to reflect changes in demand. A large proportion of our customers are on flexible contracts, where they absorb the cost or benefits of any reforecasts.
- Under our hedging strategy, our exposure to buying back power at higher prices in the short term is mitigated by holding back a percentage of generation. This provides insurance should there be an unplanned outage.
- The flexibility and optimisation capabilities of the Group's hydro assets allow the Group to manage its exposures more effectively and provide additional opportunities to create value.
- Enhanced monitoring of the Group's credit exposure, both cash and non-cash, and identification of a number of levers that could be utilised should the Group's market exposure move outside of our defined levels.
- Increased self-supply of biomass allows the Group to better manage the supply chain to meet both forecast generation requirements at Drax Power Station and also third-party supply contracts and respond quickly to changes in these demand profiles.
- A consolidated Group-wide biomass position enables oversight of our complete portfolio, allowing better informed decisions about how pellet production operations are able to support our forecast sales/generation requirements, noting the requirement to satisfy third-party biomass supply obligations.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for flexibility of generation and can create additional value.
- The Group has long-term fibre contracts to supply the Pellet Production business with biomass. We also actively engage with third-party pellet suppliers to ensure delivery schedules are met and any changes to agreed schedules are understood, to limit the impact on power generation. We continue to build fibre inventory and there is a dedicated team focused on managing this dynamic issue. The Biomass Strategy Team is focused on the 5 – 15 year fibre plan that underpins the pellet production business and BECCS strategy.
- Foreign exchange risk is mitigated by significant hedging of forecast exposures over a five-year horizon.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

People =

Context

During 2022, we, like many other organisations, faced tough challenges. As Covid-19 measures relaxed, the cost of living crisis began to take hold creating new pressures. Additionally, the labour market has been competitive with resources scarce and salaries increasing for in-demand skills. To fulfil our international growth plans we need to increase headcount significantly in markets with which we are less familiar. Plans to understand the long-term skills and capabilities required are underway, such as supporting work on new technologies like BECCS, alternative fuels, and the expansion of our biomass facilities in the US. Whilst addressing these market pressures and growth plans, keeping our colleagues safe is paramount in our planning and decision-making.

It is imperative that our workforce has the skills required as the Group expands its presence. The UK political turmoil, and high-profile and heightened campaigning by anti-biomass groups during 2022 have the potential to impact our reputation, engagement with prospective candidates, and workforce attrition.

Risk and impact

- In addition to ensuring we retain the core skills that will be required to run our business, the growth plans of the organisation will require new skills and capabilities. The Group is world leading in a number of the key aspects associated with the delivery of our strategy. As such, we require people with skills and capabilities which are adaptable to addressing new and emerging aspects of sustainable power generation and associated markets. Our performance and the delivery of our strategy is dependent upon having a robust talent pipeline at all levels of the organisation which importantly also reflects the diversity in the wider societies in which we operate.
- Union organisation could lead to complex pay negotiations with an associated cost of establishing appropriate contingencies to mitigate against any threat of potential strike action.
- Changing ways of working allows colleagues more choice about where and how they work. This means we have to be competitive on all fronts with our employee value proposition. The failure to adequately respond to changing colleague expectations could result in the loss of existing colleagues or not attracting new colleagues with the skills the Group needs for future growth.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Such change can have an impact on employee engagement, wellbeing, stress, and retention, with subsequent impacts on colleague turnover and productivity.
- International growth brings with it increased complexity, which requires an understanding and appreciation of cultural, legal, and diversity matters in those territories.
- Reputation and market risks related to the transition to a low-carbon economy may result in challenges with employee recruitment and retention. Refer to Climate Change risk on page 89.

Key mitigations

- We are progressing our employee value proposition and strategic workforce planning approach to fulfil our growth plans. Current growth needs are being met by increasing the overall capacity of the resourcing team and outsourcing recruitment processes where required to manage the increased demand.
- Working with colleagues across all aspects of our business to understand and determine our skills and capability needs, for the near, medium and longer term. Supporting the more immediate needs through reskilling programmes whilst also looking at the medium/longer term through our early careers offering.
- Contingencies are in place to mitigate against the risk of outage caused by strike action.
- Enhancing our diversity and inclusion strategy to ensure it is responsive to stakeholder views, provides equality of opportunity and aligns to our organisational vision and goals. You can read more about our work in this area on pages 69 and 112.
- Using automated advertising for our recruitment, supporting our levelling up and diversity agendas, and identifying talent from broader communities.
- Introduction of an Inclusive Leadership Programme, and an Inclusive Management Programme, aligning to the business' strategy to educate and inspire colleagues to make Drax a more inclusive place to work.
- Continued investment in employees' personal and career development to enhance business performance and provide the Group with a relevant pipeline of talent in critical roles.
- Regular reviews of our succession and key talent cover, mapped to our development programmes and talent offering.
- Evolving our engagement and listening strategies mapped to a colleague experience framework, including the introduction of Colleague Resource Groups.
- Onboarding a new occupational health provider and broadening our benefits and wellbeing offering to help colleagues take more preventative measures in areas, such as financial wellbeing.
- Aligning our wellbeing and inclusion plans, recognising that colleagues will contribute their best when they feel psychologically safe and supported in being themselves at work. This includes additional education and support focused on financial wellbeing and addressing increased anxieties relating to the rising cost of living, encouraging healthy behaviours, and enabling colleagues to understand their own health.
- Introducing a new Bereavement Policy which considers a range of bereavement experiences, including miscarriage.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Climate change

Context

The resilience of the Group's strategy and operations to climate risks is important to the functioning and long-term value creation of the Group. We have identified climate risks in two main categories – physical and transitional. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rises which may pose challenges to our operations. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low-carbon economy that could affect the Group's business model, but also serve as opportunities for growth.

In the analysis of the risks we therefore assess differing factors: those where the Group needs to mitigate against adverse events which could impact our ability to conduct our business, and those where, through effective and constructive engagement with third parties, the Group will be able to deliver a combination of economic, financial, and sustainability benefits through its activities. We provide further detail on climate-related risks and opportunities in our TCFD disclosure on page 52.

Risk and impact

- Physical risks to our pellet production operations and supply chain in the US and Canada include increased frequency, variability, and severity of extreme weather events such as hurricanes, flooding and wildfires with potential to cause damage to assets and impact on the supply of raw material and finished goods.
- Physical risks to our Generation operations and supply chain include increased frequency and severity of extreme weather events, such as heavy rainfall, flooding and high winds, with potential to cause damage to assets and impact on transport infrastructure that could restrict or reduce access to sites. For example, during December 2022, Winter Storm Elliot halted production at several plants in Canada due to sub-zero temperatures and also prevented the transport of pellets as railway lines became inoperable.
- Policy and regulatory risks related to the transition to a low-carbon economy include changes in government and cross-border climate or emissions policies that may negatively impact our Generation and Pellet Production businesses. Refer to Political and Regulatory and Biomass Acceptability risks on pages 85 and 86 respectively.
- Technology risks related to the transition to a low-carbon economy include technology and innovation, such as BECCS, not developing as expected, impacting delivery of the Group's carbon negative ambition and business strategy as well as faster than expected development of competing technologies, such as direct air capture.

Key mitigations

- The Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption.
- The increase of geographic diversity of pellet plant asset locations across the US and Canada.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.
- A robust business strategy informed by net zero 2050 scenario. The Group's three strategic objectives are aligned to global renewable energy and decarbonisation agendas. Refer to pages 2 and 3.
- Carbon negative ambition and Climate Policy, underpinning a business strategy consistent with UK and international climate change policies. Discussions with governments and policy makers continue with increasing recognition of the role the Group's strategy can contribute to in combatting the threats of climate change.
- Sourcing from a wide geographical range of third-party biomass suppliers; and continued evaluation of alternative fuels, using different feedstock types and considering wider sourcing geographies.
- Robustly challenging the views of eNGOs where we believe those views are inaccurate or misleading. Equally, where possible, seeking engagement with eNGOs on carbon accounting and reporting, and liaising with the UK Government on future policies.
- Innovation team track technology advances and progressing development of new technologies.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Plant Operations =

Context

The reliability and safe operation of our facilities is critical to our ability to create value for the Group as well as fulfill our contracted obligations in the generation of power for the UK power system.

The Plant Operations risk profile is influenced by a number of key activities including the safe management of ageing assets, building inherent reliability and safety by design for new installations, management of change, and operating equipment within intended design limits and parameters.

The Group's facilities are highly complex and require careful management, identification, control, and mitigation of risk to operate safely throughout the full life-cycle (from design through to decommissioning). The operational risk profile is varied and continually changing due to the growth in the business, with the construction of new assets and decommissioning of older assets.

At the request of UK Government, the Group entered into an agreement with National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023 to support security of supply to the UK.

Risk and impacts

- Severe weather events (such as hurricanes, fires, and floods) across North America and in the UK could result in interruption to operations and hinder the supply of required materials to operate our assets. Refer to Climate Change risk on page 89.
- As plants age, the operational reliability and integrity is expected to reduce. For example, Drax Power Station located in Selby in Yorkshire was built approximately 50 years ago and some of our hydro assets, located in Scotland, nearly 100 years ago. Whilst the likelihood of an unplanned outage occurring remains unchanged from the evaluation in 2021, the impact of an unplanned outage at Drax Power Station has increased due to volatile energy prices. Refer to Trading and Commodity risk on page 87.
- Failure to procure critical spares, goods, and services could result in additional production losses. The war in Ukraine has resulted in supply chain challenges such as longer lead times and significantly increased costs, exacerbated by global competition for raw and manufactured materials.
- Loss of experience due to planned restructuring or leavers could lead to loss of knowledge and increasing reliance on processes and procedures to operate plant and maintain quality. In particular, the Pellet Production business saw a high colleague turnover in 2022.
- An inherent risk of handling biomass is the potential for fire and explosion during its storage, production, transportation and its on-site delivery, which has the potential to cause significant disruption to operations. Refer also to Health, safety and environment risk on page 84.
- As a result of the extension to the availability of the coal units until March 2023, we believe the likelihood of protestor activity has increased. This could result in disruption to or prevention of biomass operations due to site damage, health and safety issues, or supply chain interruption leading to curtailment of delivery of goods and materials (including biomass) or otherwise to safely operate our generation assets, with significant financial impacts.
- There are also threats across our supply chain due to the reliance on the complex co-ordination of transportation at various stages of the process. Therefore, Drax could be exposed to unplanned disruption.
- Injuries and environmental issues could occur as a result of decommissioning, demolition, and restoration activities.

Key mitigations

- Business continuity plans are in place for all plants, ports and other logistics which cover weather impacts and other factors. This enables Drax to respond to normal and one-off weather events.
- A comprehensive plant investment and reliability programme has been implemented, that is risk-based and reflects the challenges of operating complex equipment and takes account of potential long lead times for spares, supported by an experienced engineering team. Increased controls such as advanced condition monitoring to alert any plant failures before they occur, where practicable, are being installed.
- The potential cost of an outage is considered when determining the running regime of our generation plant. For example, when prices are higher, lower risk running options will be utilised whereas when prices are lower we may look to take the opportunity to perform short maintenance outages.
- Maintaining stringent safety procedures in place for sourcing, acceptance, and handling biomass, and the control of dust management from both a respiratory, health, and fire and explosion perspective are assessed for their compliance with our policies.
- Maintaining plant standards and investment in plant to As Low As Reasonably Practicable (ALARP) standards, such as chemical suppression systems at Drax Power Station have been established. In areas of the plant where engineering controls cannot yet meet required standards, Personal Protective Equipment (PPE) is used to ensure individuals are not exposed to harmful levels of dust.
- Increased physical security presence is in place. Security policies and procedures are in place for each site/region in addition to a plan of adherence.
- Insurance is in place to cover potential losses from plant failure, where possible.
- Maintaining robust management systems, designed to identify and mitigate risk and manage process safety across operating assets.
- Providing the required training and development to equip our colleagues in conjunction with recruiting people with the right skills and experience.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Information systems and security ▲

Context

Our Information and operational technology systems and the integrity of the data we use, are essential to supporting the day-to-day business operations of the Group in addition to contributing to the delivery of our growth strategy.

As part of the UK's critical national infrastructure, we are required to maintain availability of our systems and the capability to adapt and respond to evolving external threats. We have a clearly defined technology and security roadmap, continually improving and investing in technology which is capable of meeting current and projected future requirements and ensuring our financial, legal, regulatory and compliance obligations are met.

Managing these risks in an environment where threats and challenges are continually evolving requires careful understanding and assessment. We use internal and external expertise, including engagement with regulators, auditors, and industry groups, to continuously update our understanding of the IT and Security risk environment. We involve IT and Security in all projects to ensure systems networks and architecture are reviewed and threat levels are assessed and addressed. Nevertheless, despite the significant work and investment undertaken to further enhance security over our systems, this heightened external risk environment poses an increased cyber risk to our business continuity and supply chains.

Risk and impact

- Geopolitical tensions have in the past been known to result in increased cyber-related threats. The ongoing conflict between Russia and Ukraine has increased the Group's risk exposure to attacks, state-sanctioned and otherwise, on our systems and those of suppliers on whom we rely for integrity of service.
- Successful cyber-attacks have the potential to compromise our systems, affecting the confidentiality, integrity and availability of our data (including personal data). The threat is evolving, and the risk from this threat has increased as a result of the Russia-Ukraine conflict. Their current attack methodology seeks to deny access which may cause operational and financial impacts and regulatory non-compliance.
- Evolving regulatory requirements present ongoing challenges to the Group. Operators such as Drax are required to broaden the scope of systems that are deemed 'at risk' and focus is being placed on establishing adequate resilience, the capability to respond and recover quickly from disruptions, and ensuring the continuation of safe and secure operations. Not meeting such regulatory obligations could result in the Group facing enforcement notice and financial penalties.
- We partner with third-parties to support our information and operational systems. If these businesses were themselves to suffer systems failure, cyber-attack, or financial difficulties, this could in turn impact our business, operations, and performance.
- Legacy systems are more difficult to maintain and are more susceptible to cyber-attacks. Subsequent operational issues, such as reduced performance, may impact the availability of systems, data, and facilities, affecting our operations adversely.
- The availability of experienced IT and Security personnel in the labour market has tightened. This may result in not being able to retain and/or hire people with the necessary skills to manage these risks. See People risk on page 88.

Key mitigations

- Maintenance of effective and up-to-date cyber security measures, including a prevent, protect, detect, respond and recover strategy, which evolves to address known and emerging threats.
- We are well-placed to respond to changing regulations and standards and we continue to develop technology, security controls, and resilience measures to maintain compliance.
- Regular awareness campaigns and training events are undertaken aimed at improved cyber-security awareness.
- Maintenance of a robust supplier onboarding policy and associated processes, to ensure major service providers and vendors are appropriately risk-assessed and reviewed periodically.
- Periodic internal and independent external assessment of the integrity, adequacy, and compliance status of our IT and cyber security controls.
- Regular updates with regulators to allow the business to continually assess the level of security risk.
- Increased exercising and refreshing of business continuity, disaster recovery, and crisis management plans.
- Continual technical refresh programmes to address legacy infrastructure and systems, and adoption of secure-by-design principles and design patterns.
- Refer to the People risk disclosure on page 88 for additional mitigations.
- All Information systems and security risks, and associated risk treatment plans, are reviewed regularly by the IT Board comprised of Executive Committee level members and senior management subject matter experts.

The strategic report is set out on pages 2 to 91 and was approved by the Board of Directors on 22 February 2023.

Will Gardiner
CEO

Effective governance is integral to the success of our business and the realisation of our goals

Amy Gwynn
Assistant Environmental Officer and a member of the Women's Network at Drax Power Station

"

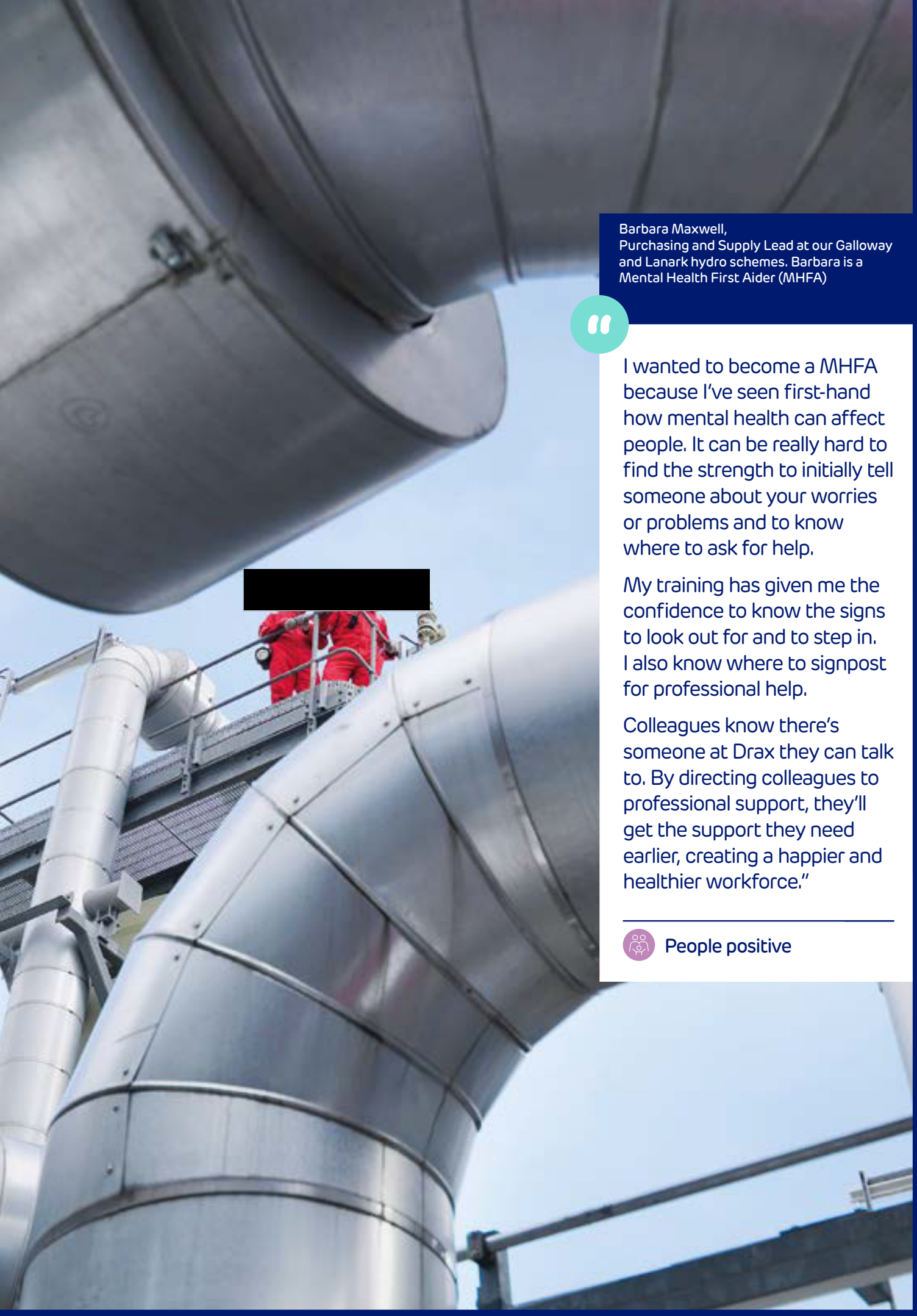
The numbers of female colleagues at Drax Power Station has increased significantly over the years, both in operational and support roles, which is very positive.

While this is great to see and shows real progress in our efforts to create a more diverse workplace, it's also highlighted areas we need to improve to reflect this demographic, such as the need for improved, better fitting personal protective equipment and creating breastfeeding facilities.

We're there to listen to colleagues' concerns and ideas and make changes to support women at various stages in their lives, including the menopause.

We want future generations of women to know they can work in our industry, that there are equal opportunities to grow and develop within the business and that they can realise their potential."

People positive



Barbara Maxwell,
Purchasing and Supply Lead at our Galloway and Lanark hydro schemes. Barbara is a Mental Health First Aider (MHFA)

"I wanted to become a MHFA because I've seen first-hand how mental health can affect people. It can be really hard to find the strength to initially tell someone about your worries or problems and to know where to ask for help.

My training has given me the confidence to know the signs to look out for and to step in. I also know where to signpost for professional help.

Colleagues know there's someone at Drax they can talk to. By directing colleagues to professional support, they'll get the support they need earlier, creating a happier and healthier workforce."

People positive

Corporate Governance Report: Letter from the Chai

Philip Cox CBE, Chair

Effective governance is fundamental to the way in which everyone on the Board and across every part of our business is expected to act.

Our purpose, strategic objectives and values

Our purpose and ambition

Our purpose is to enable a zero carbon, lower cost energy future.

Our ambition is to become carbon negative by 2030. Being carbon negative means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.

Our Strategic Objectives

Safety, sustainability and cost reduction underpin our three strategic objectives:

To be a global leader in sustainable biomass pellets
Pellet sales, self-supply, cost reduction, fibre sourcing and technology

To be a global leader in carbon removals
Development of projects in UK and internationally

Carbon negative by 2030

To be a UK leader in dispatchable, renewable power
Dispatchable, renewable power – biomass, hydro, pumped storage

Renewable power and energy services to strategic customers

Our Values

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

I am pleased to present our Corporate Governance Report.

Governance is integral to the success of our business and the realisation of our goals. It also informs our purpose and values. Effective governance is fundamental to the way in which everyone on the Board and across every part of our business is expected to act. In addition, it enables us to work in ways that help us realise our potential.

During 2022, the Board challenged management and contributed to the Group's progress in delivering its strategy. This included the continued expansion of the supply of sustainably sourced pellets, both for the Group's own use and third-party contracts. Furthermore, the Board fully supported an accelerated development of options for BECCS in the UK and globally. We have also devoted time during meetings and in our Board visits to understanding performance in activities such as health, safety and sustainability.

You can find more information about the Board's trip to Canada on page 95 and on sustainability from page 36. For more about safety and how we embed key actions into assessing management's performance, please see page 156.

During 2022, Drax – in common with many other organisations and individuals – had to react to challenging macro-economic factors. These included the impact of the invasion of Ukraine by Russia and the resulting sanctions, high energy prices, and rising inflation. Colleagues have worked hard to understand these issues and develop appropriate actions, which the Board scrutinised and challenged before reaching what we believe are appropriate conclusions. One example was the formation of a working group to undertake a detailed review of the Group's supply chain and supplier resilience after the introduction of sanctions. The Board received updates on operational issues and risks, and the steps taken to ensure the supply continuity that would allow the Group to meet its generation commitments.

Amidst energy market changes unprecedented in modern times, Drax received a UK Government request to be available to operate our coal units during winter 2022/23, if required. The Board carefully assessed this request. More details about the decision-making process, stakeholder considerations (including the need for customers to have energy security during winter) are on page 107. The effect of the cost-of-living crisis has had an impact upon many people, including our colleagues across the Group. The Board discussed these impacts and how to respond in the early autumn, and supported management in considering the amount and timing of the annual salary review. We also considered our colleagues' wellbeing, including the development of a Bereavement Policy. There is more information about this on page 69.

The integration of the Canadian business continued in 2022, with the Board reviewing ways to invest in and facilitate operations as part of transitioning into an enlarged group. Since the acquisition of Pinnacle in April 2021, colleagues in Canada have made a significant contribution to the business and our strategic progress is testament to everyone's dedication. As part of integration, the Group continues to roll out training modules such as ethics, values and safety to colleagues. The management team has also overseen ongoing work to implement the Group's sustainability principles across our Canadian sites.

In June 2022, the Board took part in a highly successful trip to pellet production sites in Canada. We attended a series of meetings with local management and subject matter experts, including health and safety, process safety and ESG. Directors were fortunate to attend a forest tour hosted by a First Nations group, where we discussed the vital forest management work taking place. We were also delighted to meet many Canadian colleagues in person and develop those important relationships. Non-Executive Director Kim Keating who was appointed to the Board in October 2021, lives and works in Canada and is passionate about outreach within local communities. During the visit, all of the Board members gained insights into the operational challenges of conducting business in Canada with extreme seasonal weather changes including periods of severe cold, snow and high winds. More discussion around this risk and the response of the business is on page 89.

Engaging with our stakeholders

The Board recognises the need to ensure effective engagement with stakeholders, both internally and externally. Regular updates form part of reports discussed at Board meetings, supported by discussions with management and advisers. Some Directors have also directly engaged with suppliers while visiting Canada, and with shareholders. These included meetings where variously our CEO, Will Gardiner, CFO, Andy Skelton, and I have participated. In addition, Will Gardiner has led our engagement with the UK Government. As our business continues to grow internationally, we appreciate the open discussions and enriched experiences that come from visiting and meeting stakeholders face to face. We feel it is vital to listen to stakeholders, take account of their perspectives, and respond to and act upon their feedback. This was clearly demonstrated during our considerations concerning the potential operation of the coal units, during winter 2022/23. There are details about the process included on page 107.

We believe the BECCS programme is fundamental to delivering the net zero ambitions of the UK, while also supporting the nation's energy demands. During 2022, we have worked with stakeholders such as BEIS, and DEFRA, regional partners including the Northern Endurance Partnership (NEP) as part of the East Coast Cluster, and commercial partners to develop our work on BECCS. This included holding two large events focused on suppliers. Last October, the Board held a two-day review of the Group's strategy, including the potential scale of the BECCS opportunity. The review assessed key next steps for the programme in the UK, and considered the prospects for global BECCS, primarily in the US. To do so, we scrutinised the feedback from meetings with regulators, policy makers and potential partners in several US states. These options for broadening the adoption of BECCS, both at home and globally, are encouraging and we believe represent genuine prospects for accelerated growth.

With BECCS being just one aspect of our portfolio and engagement with stakeholders, the Board also received reports about wider stakeholder engagement. In July, we received a presentation from the External Affairs team and discussed, assessed and challenged the quality of the team's engagement in satisfying Section 172 of the Companies Act. Naturally, this meant considering the issues pertinent to the Group, such as the expansion at Cruachan, plus UK and global BECCS. However, we also sought to gain a better understanding of what matters most to our stakeholders, and of how management seeks to address these issues. The Board fully understands the vital nature of this work and the next phase of BECCS delivery in 2023 relies upon stakeholder support and the necessary regulatory framework in supporting Drax's investment decision (find more information on page 26).

In line with the Board's expectations for a full and thorough stakeholder engagement process, the Cruachan expansion work during 2022 involved a broad consultation with all relevant stakeholders. Through 2022 the Board received updates on progress and discussed the structure of engagement. The project remains in the preliminary stage of consultation and approval. The expansion represents a key part of enabling the supply of secure, renewable energy in Scotland and England. And it will become a focus for education and job creation in the local communities.

During the year, Will Gardiner and I continued to meet quarterly with the chairs of the MyVoice Forums, our workforce engagement initiative. These meetings allow us to hear directly from colleagues, via their representatives. It is a safe forum where everyone can speak openly, holding discussions on key issues that are important for our colleagues. Will and I then reported the feedback to the whole Board. This ensures all Directors gain an appreciation of employee interests and concerns while also providing an opportunity for Directors to offer informed guidance and reflections upon our possible responses. You can read more about this on page 26.

Recognising the value of increasing Director engagement with employees, Nicola Hodson recorded a video in June 2022. In it, she explained the annual bonus plan, how we choose financial, strategic and ESG measures, and how they support our strategy. We shared the video with colleagues in July 2022 and, as the fourth most viewed internal video in 2022, it was very well-received. At the Annual General Meeting (AGM) in 2023, we will use online technology once more. This enables shareholders to attend remotely and in person, with the aim of optimising shareholder engagement and participation. However, the take up rate for remote attendance remains very low so we will continue to consider its effectiveness in enabling the Board to hear from shareholders.

Corporate Governance Report: Letter from the Chair continued

Diversity and inclusion

In last year's Annual Report, we outlined our progress regarding diversity and inclusion at Board level and throughout the Group. Even so, we recognise there is always more work to do. We welcome the expectation from the FCA for improved transparency, as announced in its April 2022 Policy Statement on 'Diversity and inclusion on company boards and executive management'. It includes recommendations that appear in our own Board Diversity Policy, which was reviewed and approved during 2022. While already meeting two of the FCA's new targets, we are mindful of the expectations placed upon the Boards of listed companies to meet all the targets. Set out below is our current progress against the FCA targets, and we provide further diversity figures in the tables on page 106:

1. **At least 40% of the board are women. Met:** 44.44% of the Board are women. In addition, 40% of the Executive Committee are women.
2. **At least one of the following senior board positions is staffed by a woman – Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO). Not yet met:** This is something of which we are mindful, and it will be considered as a factor in any future recruitment processes. Both the Audit Committee and Remuneration Committee are chaired by women.
3. **At least one board member is from a minority ethnic background, defined by reference to the categories recommended by the Office for National Statistics, excluding those listed as coming from a White ethnic background. Met:** The Board currently has one director from an ethnic minority background.

In other sections of this Annual Report, we explain the additional measures we have taken in 2022 to support positive change for diversity, equity and inclusion. These include leadership development, more transparency in career progression, and awareness-raising through events. We have developed our Bereavement Policy, which considers a range of bereavement experiences, including miscarriage and are building Colleague Resource Groups (CRGs) to give under-represented voices an opportunity to communicate in a safe place. We are also evolving our recruitment strategies to attract candidates from under-represented groups.

The Board considered and fully supported all these steps. For example, to celebrate Black History month in February 2022, Non-Executive Director Erika Peterman recorded a personal video message to colleagues (the fifth most-viewed internal video of 2022), and we held an internal live panel event to share colleagues' experiences.

Culture and governance

As the Group focuses on its People Positive agenda, we continued during 2022 to work on culture, values and our colleagues' experience. The Board received regular updates on workforce engagement, including feedback on meetings between the Chair of the Board, the CEO and the chairs (chosen by colleagues) of the MyVoice Forums. The Board also reviewed and challenged management on the results of the workforce engagement survey and the corresponding action plans, such as workshops to support colleagues. Actions following the 2021 survey, and ahead of the 2022 edition, were taken with the aim to improve the lower response rates from our colleagues in Canada and the US. These included making additional PC workstations available to colleagues in operating facilities, and allowing employees to access the survey with their phones via a QR code. In addition, line managers had to both ensure colleagues could access emails and make the appropriate plans for colleagues to have enough time to complete the survey.

The Board and management continue to place particular emphasis on the safety and wellbeing of our people. However, as we emerged from the pandemic, the cost-of-living crisis started to take hold. Our response included careful consideration of the best financial support measures, bringing the annual pay rise forward by three months and giving colleagues a significant increase. We appointed a new financial wellbeing partner, called Nudge. Through a web application, Nudge offers colleagues personalised financial guidance that aims to help them navigate the current financial challenges, as well as plan for retirement and deal with other financial matters.

During the year there were a number of Director visits to sites. For example, in November, John Baxter and Kim Keating travelled to Drax Power Station to meet management and colleagues. They discussed safety, how to improve the operational efficiency of assets, and planning for onsite development works. Kim also had a separate meeting with female employees who were part of a women's networking initiative, and John met apprentices to discuss their experience of working at Drax. He also visited the Glasgow office in June, for an update on risk management (including safety and governance) and our Scottish assets, including the development at Cruachan.

Looking forward, pressures on the global economy and cost-of-living are likely to continue. Alongside these challenges, we will ensure that our strategy for biomass acceptability, carbon removal, and secure renewable power all develop too. Drax experienced many changes during 2022 and the Board recognises the significant work by all colleagues, in response to those challenges. We very much appreciate everyone's positive contribution in delivering our day-to-day operations while progressing our strategy. It is only by working together, informed by our values and our continuing commitment to realising our ambitions responsibly, that we can deliver our purpose.

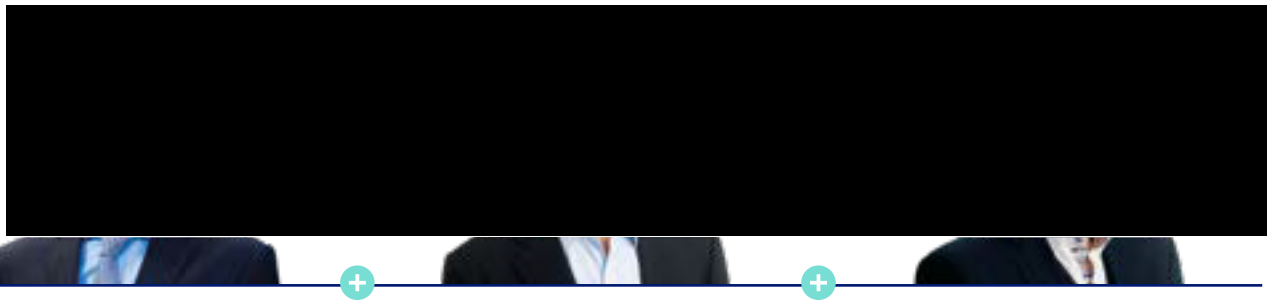
Philip Cox CBE
Chair

Corporate Governance Report: Board of Directors

The Board shapes our purpose, strategy, culture and values to generate long-term sustainable value and provide strong stewardship of the Group.

Key to Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee



Philip Cox CBE

Chair

N R

Contribution and Experience

Philip's responsibilities at Drax include Board composition and succession, Board governance and stakeholder engagement.

He was previously CEO of International Power plc, having formerly been CFO. Prior to this he held a senior operational position at Invensys plc and was CFO at Siebe plc. As a non-executive, he was previously Chair of Kier Group plc, the Senior Independent Director at Wm Morrison Supermarkets plc, Chair of Global Power Generation and a member of the boards of Talen Energy Corporation, PPL, Meggitt plc and Wincanton plc.

Philip is a Fellow of the Institute of Chartered Accountants and has an MA from Cambridge University.

Philip is an experienced leader of large businesses, particularly in the energy sector. As Chair, Philip cultivates a culture of openness, transparency and honesty on the Board in which constructive debate and challenge occurs and all directors contribute fully. Philip has an in-depth knowledge of energy markets and the related regulation. He also has extensive experience in stakeholder engagement.

Appointment to the Board:

January 2015

Appointment as Chair:

April 2015

Will Gardiner

CEO

Contribution and Experience

Will has driven the vision and operations of the Company since becoming CEO in January 2018, inspiring Drax's transformation from a leading UK renewable energy company to global leadership in sustainable biomass with the ambition to be a global leader in carbon dioxide removals.

Sustainability considerations are at the core of everything at Drax. Will is driving Drax's sustainability agenda, taking a thought leadership role in defining sustainability criteria for woody biomass. Working with stakeholders across the spectrum, Will is creating a purpose led company at Drax to ensure outcomes that are positive for people, nature and the climate.

In addition to being CEO of Drax, Will is a Commissioner of the Energy Transitions Commission, is a member of the World Economic Forum's (WEF) Alliance of CEO Climate Leaders, and is also a non-executive board member of the Sustainable Biomass Program.

Will joined Drax in 2015 as CFO and was appointed as CEO in January 2018. He has a wealth of experience in finance and technology, having held CFO and divisional Finance Director roles at a number of major companies, including CSR plc (acquired by Qualcomm, Inc in 2015) and Sky. He has dual US-UK citizenship and has lived and worked in the UK since 1998.

Appointment to the Board:

November 2015

Andy Skelton

CFO

Contribution and Experience

Using his strong financial and commercial skills built over 25 years, Andy provides the financial oversight and controls that has supported the growth of Drax from a renewable energy company to an international company with a differentiated portfolio.

Highly values driven, with a personal commitment to Drax's climate, nature and people positive ambitions, Andy represents Drax as a member of the Northern Powerhouse Partnership, helping create more opportunities and a better economy for the people of the North of England, where he also lives.

Previously Andy was CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. Andy has a BA in accounting and finance and qualified as a chartered accountant in 1994.

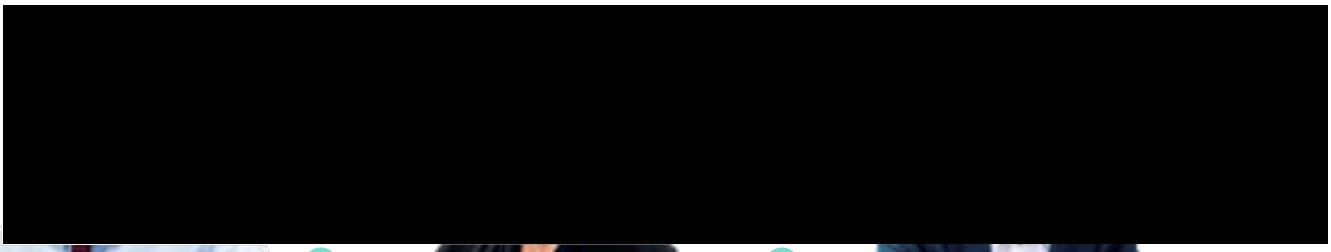
Appointment to the Board:

January 2019

Corporate Governance Report: Board of Directors continued

Key to Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee



David Nussbaum

Senior Independent Non-Executive Director

A N

Contribution and Experience

David holds a portfolio of other Board appointments, including Chair of International Alert and of the Joffe Trust. He also serves as a member of the Board ('Council') of Chatham House, and of the International Budget Partnership; is President of the Advisory Council of Transparency International UK; and is a member of the Ethical Investment Advisory Group of the Church of England. David's executive career has included being the Chief Executive of The Elders, of WWF-UK, and of Transparency International. He was previously Finance Director and Deputy CEO of Oxfam, and CFO of Field Group plc. In a non-executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Deputy Chair of Shared Interest Society, a non-executive director of Low Carbon Accelerator Limited, and Chair of Traidcraft plc. David is a chartered accountant, and has a Masters in Theology from both Cambridge and Edinburgh universities, and a Masters in Finance from London Business School.

David's extensive experience in international development and environmental matters, in addition to his prior experience as CFO of a UK listed industrial company, is of significant value to Drax and contributes to the Board's discussions and understanding of the perspectives of and engagement undertaken with stakeholders.

Appointment to the Board:

August 2017

Vanessa Simms

Independent Non-Executive Director

A N R

Contribution and Experience

Vanessa has extensive experience in senior finance roles across several different, and capital intensive, industries, including real estate, medical devices and telecommunications.

Vanessa is CFO of Land Securities Group plc and has worked in finance for over 20 years. Prior to her role at Land Securities Group plc, Vanessa was CFO of Grainger plc, held a number of senior positions within Unite Group plc, including Deputy Chief Financial Officer, and was UK finance director at SEGRO plc. Vanessa is a Fellow of the Association of Chartered Certified Accountants and has an Executive MBA from Ashridge.

Vanessa has broad and expert level experience in strategic capital allocation, finance, risk and internal controls at highly successful companies in the UK which is invaluable in her role as Chair of the Audit Committee. She has a comprehensive understanding of large, listed companies' requirements and brings a rich insight into a broad range of stakeholder perspectives.

Appointment to the Board:

June 2018

Nicola Hodson

Independent Non-Executive Director

A N R

Contribution and Experience

As Chair of the Remuneration Committee Nicola brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders.

Nicola is currently Chief Executive of IBM UK and Ireland and Deputy President of TechUK. Previously she was Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, Chief Operating Officer of Microsoft UK and previously held P&L and sales roles at Siemens, CSC (now DXC) and EY. Nicola is a Non-Executive Director of Beazley plc.

Nicola brings expert level technology knowledge, with her current working experience at the forefront of global organisations. She is also skilled in business and digital transformation, and sales. Nicola is committed to inclusivity and enabling people to realise their full potential, irrespective of their background.

Appointment to the Board:

January 2018

Board statistics (As at 31 December 2022)

Gender diversity (%)

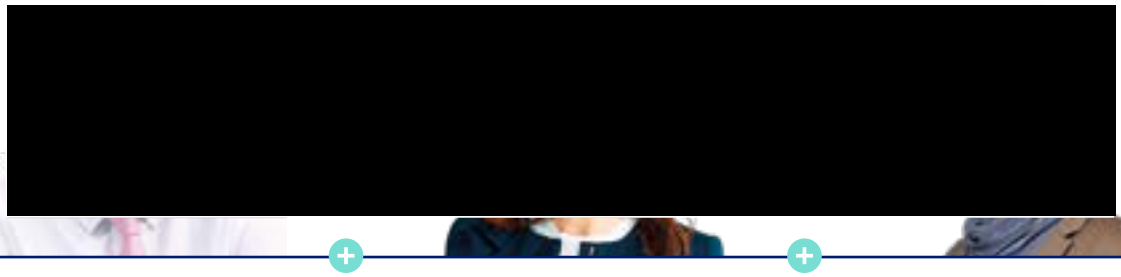
Female	44.4
Male	55.6

Composition (%)

Non-executive	66.7
Executive	22.2
Chair	11.1

Tenure in years (%)

0-2	22.2
3-4	44.4
5+	33.3



John Baxter CBE

Independent Non-Executive Director

N R

Contribution and Experience

John has over 45 years working across the nuclear, electricity, oil and gas sectors. John was previously at BP plc, most recently as Group Head of Engineering & Process Safety, prior to which he worked at the UK utility Powergen plc as Group Engineering Director, as well as roles as a UKAEA Board member and also as a nuclear submarine engineer officer. He is a non-executive Director of Sellafield Ltd and chairs the Sellafield Board Committees on Environment, Health, Safety & Security and also People & Remuneration

He is a Chartered Engineer, Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh. John was President of both the Institution of Mechanical Engineers and The Welding Institute.

John has broad and expert level experience in engineering, health and safety, and energy generation experience. John is passionate about people development, particularly advancing the opportunities for young people in STEM careers, including via apprenticeships. His dedication to charity work and fundraising to support young people, provides a depth of understanding during Board discussions on stakeholder engagement and culture matters. Also, having been born and brought up in Scotland he brings important insights to Drax on the local environment and culture.

Appointment to the Board:

April 2019

Kim Keating

Independent Non-Executive Director

N R

Contribution and Experience

Kim is a Professional Engineer with 25 years of broad international experience in the oil and gas, nuclear, hydropower, and mining sectors. Most recently, Kim was the Chief Operating Officer of the Cahill Group, one of Canada's largest multi-disciplinary construction companies. Prior to joining the Cahill Group in 2013, Kim held a variety of progressive leadership roles from engineering design through to construction, commissioning, production operations and offshore field development with Petro-Canada (now Suncor Energy Inc.). She is currently a non-executive director of Yamana Gold Inc. & Board chair of Major Drilling International Inc. Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. Kim is a Fellow of the Canadian Academy of Engineering, holds a Bachelor of Civil Engineering degree and an MBA. She also holds the Canadian Registered Safety Professional (CRSP) designation & Diligent Climate Leadership certification. She is a graduate of the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation. Throughout her career, Kim has made significant engineering and project management contributions to complex major projects in the Canadian, Norwegian and UK energy sectors, bringing a wealth of strategy, operational leadership, and technical expertise to her roles. She has a deep appreciation and insight into the value of community partnerships particularly with indigenous groups.

Appointment to the Board:

October 2021

Erika Peterman

Independent Non-Executive Director

A N

Contribution and Experience

Erika's extensive experience, gained from over 25 years working in global organisations, enables the delivery of change and growth in complex, world-leading businesses. Her broad knowledge has been built serving various parts of the chemicals industry, across a range of sectors from plastics, petrochemicals, agriculture and pharma.

Erika is currently Senior Vice President at BASF Corporation, where she leads the North American Chemical Intermediates business. Erika has held senior executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management. Passionate about STEM and DEI, she actively supports BASF's talent and workforce development programs, as well as a range of diversity and inclusion initiatives.

Erika sits on a variety of College of Engineering Advisory Boards, including those for the University of Houston and the Georgia Institute of Technology. She serves as a Board Trustee at Chatfield College in Cincinnati, Ohio. She is also a member of the Executive Leadership Council, a non-profit organization whose mission is to globally accelerate the development of successful black executives across the lifecycle of their careers. Erika holds a BSc in chemical engineering from the Georgia Institute of Technology and an MBA from the University of Houston.

Appointment to the Board:

October 2021

Corporate Governance Report: Compliance with the UK Corporate Governance Code 2018 (Code)

At two meetings during 2022, the Board formally considered reports on how Drax, the Board and its Committees applied the Principles and complied with the Provisions of the Code. The meetings included discussions about the steps being taken and how they might evolve, as well as the effectiveness of stakeholder and colleague engagement. We also discussed how the Board assesses, monitors

Board Leadership and Company Purpose **Principles** A. Promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. B. Purpose, values and culture C. Resources and effective controls D. Engagement with stakeholders E. Workforce engagement and whistleblowing	The Board has clearly articulated the Group's purpose (to enable a zero carbon, lower cost energy future), ambition (to become carbon negative by 2030) and business model. The Board promotes a culture of openness and collaboration, setting a clear and positive tone to promote our values. This underpins the Group's strategy: to be a global leader in both sustainable biomass pellets and in negative emissions, and to be a UK leader in dispatchable, renewable power. It also supports the UK's ambition to achieve net zero by 2050. Items such as health, safety and wellbeing, ethics and employee engagement are standing agenda items at Executive Committee and Board meetings. This provides oversight and identifies areas for improvement and practices that enable positive engagement, underpinning the culture of respect.	The workforce engagement forums meet quarterly. Key issues discussed in 2022 included career development, inclusion, social and environmental responsibility, Russia's invasion of Ukraine, inflation, energy costs and the rising cost of living. Chair, Philip Cox, and CEO, Will Gardiner, meet quarterly with the chairs of the workforce forums, with support from Hillary Berger, who is Group General Counsel and an Executive Committee member. The subsequent CEO report to the Board includes information about these meetings. Typically, the Group undertakes employee engagement surveys annually. Action from the 2021 survey included the implementation of a career pathway pilot. This involved career video stories and leaders engaging with teams to discuss how they can improve on communicating and leading change. (You can read more about how the Board monitors and assesses culture on page 105).
Division of Responsibilities **Principles** F. The role of the Chair G. Board composition H. Non-Executive Directors I. The company secretary and Board resources	The Board comprises the Chair of the Board, two Executive Directors and six independent Non-Executive Directors. All six were considered independent on appointment; one of them, David Nussbaum, acts as Senior Independent Director. The Senior Independent Director, David Nussbaum, led the Non-Executive Directors in a review of the Chair's performance and then provided feedback to the Chair.	Non-Executive Directors routinely scrutinise performance against business objectives (including financial, strategic and other measures captured in the Group Scorecard). They hold management to account while providing challenge and guidance in an open and constructive environment. Examples from 2022 include requests for deep dives into the top safety risks and the reintroduction of health and safety to the bonus scorecard. In addition, there were
Composition, Succession and Evaluation **Principles** J. Appointments to the Board and succession planning K. The skills, experience and knowledge of the Board and Committees L. Board evaluation	The Nomination Committee comprises the Chair of the Board (who also chairs the Committee) and six independent Non-Executive Directors. All appointments to the Board are subject to a formal, rigorous and transparent process, and all new Directors undergo a thorough induction programme.	Each year the Nomination Committee reviews the Group's succession plan, identifying colleagues who have the potential to progress to more senior roles in one to five years. Based on merit and objective criteria, the review focuses on various aspects such as technical skills, experience, behaviours, attitudes and diversity. This ensures the business has the right leaders in place to deliver our purpose and strategy.
Audit, Risk and Internal Control **Principles** M. The effectiveness of internal and external audit functions N. Fair, balanced and understandable assessment O. Risk management and internal control	The Audit Committee comprises four independent Non-Executive Directors. The Committee chair, Vanessa Simms, was considered independent on appointment in that role, and has recent and relevant financial experience.	The Audit Committee provides oversight and challenge of the Group's financial statements to ensure they provide a fair, balanced and understandable assessment of the Group's position and performance. The Board has procedures in place to manage risk and oversee the internal control
Remuneration **Principles** P. Remuneration policies and practices and alignment to long-term strategy Q. Executive remuneration R. Independent judgement and discretion and remuneration outcomes	The Remuneration Committee comprises five independent Non-Executive Directors and the Chair. The Committee Chair, Nicola Hodson, was considered independent on appointment as Chair and has relevant committee experience. Shareholders approved the current Directors' Remuneration Policy (Policy) at the 2020 AGM.	During 2022, the Remuneration Committee – with support from Korn Ferry –reviewed the Policy and considered it to be broadly fit for purpose. The updated Policy will be presented to shareholders for approval at the 2023 AGM. You can find out more about the proposed new policy in the Directors' Remuneration Report on pages 127 to 157. Annual bonus metrics are the same for all

You can find the Code on the Financial Reporting Council website at www.frc.org.uk

and constructively influences culture. In addition, we considered the actions taken in addressing recommendations from the most recent, externally-led Board and Committee performance evaluations. The Board's view is that the Company has satisfied the Principles and Provisions of the Code throughout 2022.

In June 2022, the Board visited Drax sites in Canada. This gave Directors the opportunity to visit key projects, meet operational colleagues, and gain invaluable insight into the local culture of the business. The visit included learning about First Nations' forest management, in addition to health and safety, process safety and ESG at the Canadian sites. Following the easing of Covid-19 restrictions, we are planning further visits to Drax site locations for 2023.

The Board ensures that both it and the business actively engage with a wide range of stakeholders to encourage meaningful two-way participation. This also ensures the Group makes a positive contribution to wider society. Board papers submitted for material decisions, and the assessment undertaken at Board meetings, consider the impact on wider stakeholders, and the Board routinely receives updates on stakeholder engagement. You can read more about this on pages 26 to 33. The Chair, Senior Independent Director and Chairs of the Audit and Remuneration Committees are all available for engagement with shareholders.

Diversity, equity and inclusion are important to the work of the Board, which is keen to set the right tone. The Board assesses actions being taken in the three core areas of the strategy:

(1) Data – understanding and tracking changes being made to the socio-economic and cultural balance of colleagues working across the Group

(2) Educate – positive steps to inform behaviours as part of driving change

(3) Inspire and recruit – encourage people throughout the organisation to participate and recognise the importance of their involvement in realising shared objectives

The Diversity and Inclusion Steering Committee reviews progress in each pillar regularly with the CEO providing updates to the Board. You can read more about our work on diversity and inclusion on pages 69 to 70 and 112 to 113

The Group's confidential whistleblowing telephone hotline and web-portal enable colleagues and third parties to raise matters of concern. The Board oversees whistleblowing and receives regular updates; it also discusses findings from investigations and challenges management on initiatives associated with raising awareness and addressing learnings.

discussions about the cost tracking and status of projects.

Before regular Board meetings, the Chair and Non-Executive Directors meet without the Executive Directors being present, giving them the opportunity to consider and discuss matters. The Audit Committee, which the Board Chair, Philip Cox, attends by invitation, also provides routine agenda time to discuss matters in the absence of management. These agenda items typically include meetings with the external and internal auditors.

The Board approves additional appointments in advance, taking into account the additional demands on directors' time. No Executive Director has a non-executive position in another listed company.

All Directors have full access to the services of the Group Company Secretary, who works closely with the Chair of the Board and Chairs of the Committees. This ensures the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently. The whole Board approves the appointment or removal of the Group Company Secretary.

The most recent review, conducted in November 2022, also assessed the capabilities required to support progress in delivering the breadth of projects across key functions of the Group.

All Directors seek annual re-election (or election at their first AGM following appointment).

Board Alchemy performed an externally facilitated evaluation of the Board and its Committees in 2022. You can read more about this on page 107 to 108 and pages 113 to 115.

More about the composition and activities of the Nomination Committee is in the Nomination Committee Report, on pages 111 to 115. Actions being taken in the search for a new Chair of the Board upon the conclusion of Philip Cox's period of tenure can be found on page 112.

framework. Its procedures also determine the nature and extent of the principal risks the Group is willing to take to achieve its long-term strategic objectives. Details of the approach to risk management, the process controls and principal risks, together with mitigation strategies, appear on pages 77 to 91. The Audit Committee supports this work as part of regular agenda items.

In 2021, the Committee undertook a formal tender in preparation for the end of tenure of the present external auditor Deloitte LLP. This concluded with a recommendation to appoint PwC for the financial year commencing 1 January 2024.

Details about the composition and activities of the Audit Committee are within the Audit Committee Report, on pages 116 to 126.

participating colleagues, including Executive Directors, ensuring alignment. In 2020, the Committee determined that from 1 January 2023, the contribution rates paid in respect of pension benefits for existing Executive Directors would align with the wider workforce.

The Remuneration Committee scrutinises performance-related pay at the point of completing a measurement period. It has discretion to adjust remuneration outcomes where appropriate to ensure that reward outcomes align to Group performance.

No directors are involved in making decisions regarding their own remuneration.

You can find the updated Policy, the composition and activities of the Remuneration Committee, and remuneration outcomes in the Remuneration Committee Report on pages 127 to 157.

Corporate Governance Report: Executive Committee

Role of the Executive Committee

The Executive Committee focuses on the delivery of the Group's strategy, assessing the adequacy of the Group's financial structure, operational and financial performance, innovation, organisational development, and change. This is enabled by engagement with the workforce in addition to external stakeholders, including the UK Government and NGOs.

The Committee considers stakeholder engagement, including a focus on the political landscape that could impact the Group's ability to execute its strategy. There are more details about such engagement by the Group on pages 26 to 33. During 2022, there were no changes to the membership of the Executive Committee.

The Executive Committee develops and considers policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations. These policies and procedures include our Code of Conduct, Group Health and Safety, Supplier Code of Conduct and Diversity and Inclusion Policy.

As detailed on page 107, the question of whether to operate the coal units during winter 2022-2023 represented a significant business decision for the Group and its stakeholders. The Executive Committee completed several reviews of the risks related to coal generation and reported these findings to the Board.

Following the acquisition of Pinnacle Renewable Energy, Inc in April 2021, the Committee has continued – throughout 2022 – to oversee its integration within Drax. We are also deepening our understanding of the opportunities related to global sustainable biomass generation.

The Executive Committee considers business performance against the annual plan, and reviews progress in realising longer-term objectives. They receive reports on each of the business units, covering financial and non-financial metrics. The latter include matters affecting the safety and wellbeing of our workforce, which is the opening agenda item for each meeting. Ethics and values are also a standing agenda item.

In 2022, the Executive Committee completed an in-depth review of all nine principal risks; each one is owned by a member of the Executive Committee. Following the acquisition of Pinnacle, the Pinnacle Risk Register was restructured to align with the Drax Principal Risk categories and risk scoring methodology (which was completed in 2021). The resulting document was then circulated to each Principal Risk owner for review and feedback, to help establish Group-level governance of Pinnacle-specific risks. You can read more about our Principal Risk processes on pages 77 to 91.

The Executive Committee meets informally most weeks throughout the course of the year, in addition to holding 7 meetings at which more formal reports are considered on a range of business performance and planning measures. Where relevant to the matters under discussion, Committee members receive the relevant briefing papers ahead of these meetings. In addition, members receive presentations on various issues from senior managers within the business units.

The Committee also meets with management teams each quarter for a deep dive into performance in delivering the Group's strategic imperatives. In these sessions, the Committee reviews key programmes and progress against key milestones.

Biographies of the Executive Committee members are on the website: drax.com/about-us/corporate-governance/.

A sound governance framework underpins our purpose and supports effective decision making and the delivery of our strategy

Drax Group plc Board

The Board is responsible for leading the Group and ensuring long-term value creation for shareholders and wider stakeholders. It also establishes and reviews the Group's purpose and values, assesses and monitors culture, and takes responsibility for setting and overseeing the Group's strategy and risk appetite. It monitors performance too, making sure the necessary controls and resources are in place to deliver the Group's plans and that the Group meets its responsibilities to its stakeholders.

Audit Committee

This Committee oversees financial reporting, key accounting judgements, internal controls and risk management systems, plus internal and external audit effectiveness.

Page 116

Nomination Committee

The tasks of this Committee include making recommendations on the size, diversity and composition of the Board, and succession planning for the Directors and senior executives.

Page 111

Remuneration Committee

This Committee oversees the Group's approach to remuneration, ensures remuneration policies support the purpose and strategy, and sets pay for the Executive Directors and members of the Executive Committee. It also considers the alignment of reward across the wider business.

Page 127

Executive Committee

The focus of this Committee is the Group's strategy, financial structure, planning, operational and financial performance, and governance framework. It also closely considers culture and diversity, succession planning and organisational development below Board level.

Page 102

Ethics and Business Conduct Committee

This Committee monitors ethical behaviour and practices across the business.

Capital Allocation Process Committee

The members of this Committee provide oversight, co-ordination and approval for capital deployment proposals.

Financial Risk Management Committee

This Committee provides oversight and challenges the effective management of all financial risks, including trading, commodity, treasury and currency.

IT Board

This Board provides oversight and co-ordination of IT activities and strategy, information systems and security risk.

Operating Review Committees (Pellet Production, Generation and Customers)

These Committees review the operational and financial performance of the business units.

Group HSE Committee

This Committee reviews and challenges the management of process and people safety, health, environment and wellbeing risks.

Corporate Governance Report continued

Role of the Board

The Board determines the Group's purpose, strategy and business model for long-term value creation, and its appetite for risk and risk management policies. The Board also determines the annual plan and budget, considering whether the Group has the necessary resources to deliver the strategy. In addition, the Board sets the key performance indicators to measure performance against strategic objectives (e.g. tracking cost reduction targets in the self-supply of pellets; see page 18). It also reviews and advises on stakeholder engagement, including with shareholders, the workforce, Government and NGOs. The Board considers management proposals for acquisitions, disposals, and other transactions outside ordinary delegated limits. Such transactions included the decision to make available the coal units at Drax Power Station, in the event called upon to provide power to the UK grid (see page 107).

The Board also considers material changes to accounting policies or practices, and significant financial decisions. Such decisions include investment in large scale projects such as BECCS, capital structure and the dividend policy. For more information on these see the Financial Review which starts on page 20. The Board provides challenge to management on the Group's priorities and initiatives related to sustainability and environmental practices. The Board reviews the effectiveness of the Group's governance structure too, commenting on how it should be revised to reflect the evolution of the business. Reviews may cover: business conduct, ethics and whistleblowing; the prosecution, defence or settlement of material litigation; and Directors' Remuneration Policy. They may also include the terms of reference of Board committees, and the Board structure, composition and succession planning.

Terms of reference

The Board has a schedule of matters reserved for its decisions, and formal terms of reference for its committees (which it reviews periodically). The terms of reference of the committees of the Board are available to view on the Group's website at www.drax.com.

Matters not specifically reserved to the Board and its committees under their terms of reference, or for shareholders in General Meeting, are delegated. Delegation is to the Executive Committee, or otherwise delegated in accordance with a schedule of delegated authorities that is approved by the Board. The most recent review of the Matters Reserved for the Board occurred in December 2020. This review informed a detailed assessment of the Group's wider delegations of authority, which was completed in 2021.

How the Board functions

Routinely, before the formal meeting of the Board, the Chair and the Non-Executive Directors meet in private without management being present. This allows the Chair and Non-Executive Directors to exchange views and share any concerns before the meeting starts. At each Board meeting, the CEO gives a report on key business, operational and safety matters and reports on the Group's financial performance. The Board also receives regular reports on performance against the business plan, as well as operational and financial performance. In addition, it receives regular business reports from senior management across the Group, and updates on investor relations and wider stakeholder engagement. Adequate time is allocated to each agenda item, to support effective discussion and challenge by Directors.

During 2022, there was a focus on understanding the principal risks associated with the request received from the UK Government to be able to operate the coal units, if required, to assist with country's energy security during winter 2022/23. You can read more about the Board's decision process and stakeholder engagement on page 106-107 and in the Principal Risks and Uncertainties section on page 77.

Linked to energy security, the Board received regular updates during 2022 on the macro-economic factors influencing energy providers and supply chains. In February, the Board established a working group with delegated authority to complete a detailed review of the Group's supply chain. This review encompassed the resilience of suppliers and analysis on third-party sourcing. During the year, the Board also discussed the increasing costs of pellet production and inflation-related costs. Board members reviewed ways the Group's integrated supply chain is capable of creating additional value to mitigate macro-economic factors. You can read more about the Group's approach to economic risks on pages 77 to 91.

The Board receives regular industry, regulatory and topical updates from internal specialists as well as external experts and advisers. Examples included, half-yearly updates on security matters including cyber security, information security and the effectiveness of controls.

The core activities of the Board and its Committees are planned on a forward agenda that the Chairs of each Committee consider and review at least annually. Through meeting minutes the Committee maintains a list of matters arising from each meeting and follow these up at subsequent meetings. The Group Company Secretary advises the Board on governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management. The Group Company Secretary also assesses compliance with the Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Corporate Governance Code and the Companies Act. An important part of this is effective collaboration with other parties across all Group functions. Good training, regular discussions on key issues, and support in evaluating the potential for change from those in areas of critical operational risk are also imperative.

All Board Committees are authorised to obtain legal or other professional advice as necessary to perform their duties. This includes securing the attendance of external advisers at meetings and seeking required information from any member of the Group's workforce.

The Company's Articles of Association (the Articles) give the Directors power to authorise conflicts of interest when presented with such matters for their review. The Articles were most recently reviewed by the Board in 2021 and updated with shareholder approval at the AGM held in 2021. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2022, no conflicts of interest were identified. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example, to appoint a director to a Group company). The Articles are available on the Group's website at https://www.drax.com/wp-content/uploads/2021/04/2021-Articles-of-Association.pdf.

Culture

How does the Board monitor and assess culture?

The Executive Committee	• The subject of ethics and values is a standing agenda item for the Executive Committee. The Chair of the EBCC supports the CEO's regular updates to the Board. • The Executive Committee develops plans for Board consideration on matters such as responding to workforce engagement feedback, promoting diversity and inclusion, and dignity at work. • The CEO sends a weekly Group-wide "Ask Will" email with Q&A (allowing colleagues to ask/comment about what is on their mind).
The Group Ethics and Business Conduct Committee (EBCC)	• A sub-committee of the Executive Committee, the EBCC meets quarterly to monitor, support and challenge activities, assessing whether there has been proper regard for the Group's policies as well as external laws, regulations and standards. It also considers initiatives to maintain, enhance and assess ethical behaviour and business conduct across Drax. • Members of the EBCC include the Group General Counsel (Chair), the Director of Corporate Affairs, the DBI Senior Vice President, the UK Portfolio Generation Director, the Managing Director of Drax Customers, the Group General Counsel and the Group Company Secretary. • The EBCC supports the Group's commitment to doing the right thing in its business practices. It achieves this by making sure there are appropriate communications to raise awareness and providing appropriate training that informs behaviours in accordance with our Code of Conduct. For more information, see page 72. • This sub-committee also assesses and challenges the annual review and risk assessment of compliance programmes. These cover anti-bribery and corruption (including conflicts of interest), corporate criminal offences (tax evasion), ethical due diligence, fair competition, privacy, sanctions, Speak Up (whistleblowing), and supply chain human rights.

The Business Ethics team is responsible for the operation of the Group's Speak Up (whistleblowing) programme and reviews its annual risk assessment (most recently completed in early 2022). This includes the external, confidential (and anonymous, should reporters so wish) reporting service that's available in multiple languages. In the 2022 MyVoice engagement survey, 86% of colleagues responded positively when asked whether they *"feel comfortable to speak up or report any concerns"*. For more information on Speak Up, see page 73.

Our various Speak Up reporting channels are promoted to internal stakeholders across several platforms, and to third parties via our Supplier Code of Conduct. The Business Ethics team responds to any reports from within Drax, as well as those referred via the external service. The Group Company Secretary is the Whistleblowing Officer with oversight of all related investigations, which the Business Ethics team manages. Speak Up matters continue to be reported to the Board and EBCC at the respective meetings, with an annual report of EBCC activities (including Speak Up reports and investigations) provided to the Audit Committee. The Audit Committee also receives a quarterly report on Speak Up.

As stated in our 2021 Annual Report, our Speak Up programme received a positive internal audit in May 2021 (reported to the Audit Committee in July 2021). Most actions raised in the audit were completed within 2021, although one that the Audit Committee was tracking – related to creating an investigation procedure – was carried over into 2022. To close this action, the EBCC created and approved three principle-based guides in June 2022.

The Speak Up (whistleblowing) policy was reviewed in early 2022, with no material changes required. Our two Speak Up guides (one for reporters and the other for managers) were also reviewed and updated then communicated to colleagues in 2022. Both documents reflected our newly-created template for internal Speak Up reports.

The Speak Up programme was rolled out to colleagues in Canada during 2021. In July 2022, there were further communications via the deployment of the Anti-bribery and Corruption Policy and a 'Keeping Ethics in Mind' guide that summarises Business Ethics policies. In September 2022, the full Code of Conduct (including Speak Up content) was issued to former Canadian salaried colleagues; whilst non-salaried colleagues received the 'Code at a Glance'. Our new Princeton colleagues in Canada will be included in the programme from 2023.

We intend to deploy the Speak Up programme to our Drax Asia colleagues in 2023. In preparation, during the second half of 2022, we progressed an external legal review of our Speak Up policy in relation to Japanese whistleblowing legislation.

In addition, the Business Ethics team held two virtual awareness-raising sessions in September 2022 for our MyVoice Forum members and Mental Health First Aiders. A Code of Conduct eLearning refresher (including Speak Up content) was deployed in November 2022 to all UK and US colleagues (although not to our colleagues in Canada).

Corporate Governance Report continued

Diversity

We explain our work promoting diversity of all kinds on pages 69 to 70. The tables on this page show the gender and ethnicity representation on the Board, and the gender representation in the wider workforce, at 31 December 2022.

Gender diversity of the Board and wider workforce

	Male		Female		Total	
Gender	No.	%	No.	%	No.	%
Board members	5	55.6	4	44.4	9	100
Senior managers[1]	45	62	28	38	73	100
All employees[2]	2,155	68	992	32	3,147	100
Total	**2,205**	**68**	**1,024**	**32**	**3,229**	**100**

(1) Direct reports of the Board (Executive Committee) and their direct reports.
(2) Excluding Board members and senior managers.

Gender representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	55.56%	4	6	60.00%
Women	4	44.44%	0	4	40.00%
Other categories	0	0.00%	0	0	0.00%
Not specified/prefer not to say	0	0.00%	0	0	0.00%

Ethnicity representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	7	77.78%	3	10	100.00%
Mixed/Multiple Ethnic Groups	0	0.00%	0	0	0.00%
Asian/Asian British	0	0.00%	0	0	0.00%
Black/African/Caribbean/Black British	1	11.11%	0	0	0.00%
Other ethnic group, including Arab	0	0.00%	0	0	0.00%
Not specified/prefer not to say	1	11.11%	1	0	0.00%

Board leadership of stakeholder engagement

The Board is responsible for engagement with stakeholders. It ensures that appropriate time is given to discussing the views and feedback from stakeholders and assesses the sufficiency of resources available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of the Group's key stakeholders, the concerns they have raised, and the date of each meeting with them.

Members of executive management, including Executive Directors, provide regular updates to the Board on key stakeholder relations activity, current issues and the relevant feedback received from stakeholder interaction. These updates ensure the Board's awareness and inform discussions, with members taking these opportunities to assess and challenge management's approach relating to engagement.

The methods of engagement vary according to the issue and stakeholder(s) concerned, and engagement takes place at many levels of the business. A judgement is made, case-by-case, on the need for engagement by the Board, Executive Committee or senior management, or at the operational level. Management also keeps under review the relevant stakeholders that may be affected by major decisions.

During 2022, the Board received reports on the engagement strategy from a range of stakeholders. The topics included BECCS and the potential expansion of the Cruachan pumped storage power station (see page 95). The Board also considered biomass acceptability and strategy, and the possible use of the coal units over winter 2022-2023 (see page 107). The CEO's report to the Board regularly includes a section detailing activity around key stakeholder relations and the relevant feedback received from stakeholder interactions.

The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006. Supporting this, Board discussions – and papers – for material decisions consider the likely impact on stakeholders affected by the decisions. This helps to ensure that the interests of all relevant stakeholders are considered in decision-making. You can find our Section 172 Statement on page 26.

For more detailed information on our stakeholders and how we engage with them, please refer to our Stakeholder Engagement section on pages 26 to 33.

Directors' development and induction

The Board are supported in their development and knowledge through a combination of regular presentations from management, and informal meetings, that build an understanding of the business and sector, or in areas recognised as being technically complex. Such training is intended to support a deeper understanding and equip the Non-Executive Directors with insight into how the Drax approach compares with the practices of its peers.

All new Directors receive a comprehensive and tailored induction programme. It includes meetings with key managers, international site visits, briefings on key operational matters and training with external and internal providers on Board procedures and governance matters. Following their appointment in October 2021, Kim Keating and Erika Peterman completed their induction programme during the first half of 2022.

Throughout 2022, the Directors also had access to the advice and services of the Group Company Secretary. Directors may take independent advice at the Company's expense, when they judge it necessary to discharge their responsibilities effectively. No such independent advice was sought in 2022.

Board decision-making and stakeholder considerations – Extension of coal operations and energy security

In 2020, the Board announced that by 2021 Drax would cease the commercial operation of coal for the generation of power. This decision was, and remains, an integral part of the delivery of our carbon negative strategy. This is also underpinned by the further development of generation through the use of viable and sustainable alternative fuels. As a consequence of the energy crisis and the war in Ukraine, in spring 2022 the UK Government requested that Drax consider making available its two coal fired units for operation during winter 2022-2023 under a formal operational and commercial framework.

With regular discussions on the matter, the Board diligently examined this request and established a sub-Committee consisting of the Chair, CEO and CFO. Additionally, a new management working group fed into the Executive Committee to consider the impact of extended coal operations. Early in the process, the Board took advice from key advisers including our brokers and our lawyers, Slaughter and May. The analysis included scenario-planning and reports on different stakeholders' perspectives and their concerns.

It was emphasised that the aim of operating the coal units, if required, was not to generate significant value for the Company. Instead, the expectation was to enter into an agreement with National Grid ESO that would allow for extended coal operations in consideration for a reasonable fee, to ensure the Group's costs were reimbursed, and to ensure additional risks which might arise were suitably indemnified. In seeking such a structure, management was cognisant of the views of external stakeholders, including shareholders. It also took account of the Group's willingness to support the country, businesses, and communities in the security of energy supply at a time of potential need.

As the Government's request represented a significant change from the Company's stated strategy, the Board placed significant importance on stakeholder views. We gained updates on the views of energy customers, employees, NGOs, Ofgem and shareholders. We also considered concerns regarding the impact on the delivery of BECCS at Drax Power Station and the possible reputational impact. After thorough review, the Board concluded that it did not expect that a decision to make available the coal units over winter 2022-2023 would adversely affect the timing of realising BECCS. However, it was noted that the 2023 phase of the BECCS project continues to rely heavily on the UK Government's financial model that supports BECCS.

Operationally, the Board considered site and logistics security to enable the units to achieve a state of readiness. This included the recruitment of experienced contractors and provision of training, and the identification of supply chain partners. It was also recognised that the amount of coal generation was not significant when compared to energy generation from sustainable and renewable biomass. Furthermore, and crucially, the request related to a short-term challenge to address a security of supply issue for the UK's energy needs.

Throughout its consideration, the Board was cognisant of its stated strategy; the Directors remain committed to the cessation of the coal operation and to becoming carbon negative by 2030. The Board was also respectful of the views of stakeholders both within the Company and those outside who were averse to enabling the coal assets to be operated. The decision to agree to operate the coal units during winter 2022-2023, if required, resulted from several factors, including the highly unusual circumstances arising from the war in Ukraine. Other factors included high levels of energy uncertainty, energy market volatility, and the fact that Drax forms a key part of the UK's critical energy infrastructure.

2022 External evaluation of the Board

The Board conducts formal performance evaluations annually. These reflect on the continuing effectiveness of its activities and the quality of its decisions, and consider the contributions made by each Board member. In line with the UK Corporate Governance Code requirements, every third year the Board engages an external facilitator to support the review. Board Alchemy supported the review in 2019 and Committee performance evaluation in 2020. Board Alchemy has no other connection with the Group or individual Directors.

Selection of the provider

In preparing for the 2022 review, the Board agreed that Board Alchemy should be re-appointed. In so doing the Board recognised that there had been significant changes since the previous external review,. These included the appointment of two new Non-Executive Directors as well as a transformational acquisition and significant change in the activities of the Group combined with progression in strategy. Board Alchemy brought knowledge of the business and its objectives, and an understanding of how the Board had been performing (and its goals from three years ago). These insights were considered valuable in supporting the present review and allowing a degree of continuity that considered how the Board had evolved and responded to the changes experienced. Following consideration of the style of assessment, reflection and challenge, provided by Hanif Barma of Board Alchemy, the Board concluded that he was the most appropriate choice of reviewer.

Corporate Governance Report continued

The process

Hanif commenced the review by consulting public information on the Group. Subsequent conversations with the Goup Company Secretary added additional context to the written materials and allowed for an assessment of progress since the last external review. The Directors completed questionnaires and took part in interviews to support discussions on key topics and gain feedback. Hanif also met selected members of the Executive Committee and observed the September meetings of the Board and Remuneration Committee, and the November 2022 meeting of the Audit Committee. After collating all feedback, a report was presented to the Board at the December 2022 meeting.

Outcomes

In November 2022, David Nussbaum, Senior Independent Director, received feedback from Hanif regarding the Chair's performance; the Chair was not present for this discussion. Later in November, David provided feedback to the Chair based on the conversation with Hanif. The conclusions of the feedback were that the Chair continued to perform well and was an effective enabler to the Directors, promoting open dialogue and good engagement amongst Board members. The Directors had noted progress in relation to feedback provided the previous year. Apart from the topics arising from the separate, overall board performance evaluation, the Directors did not identify further areas that merited the Chair's attention. Hanif also met the Chair to discuss the performance of individual Directors and the comments were fed back to the relevant Directors.

Although there were no high priority actions for the Board, some recommendations and suggestions were provided and are set out on page 114, alongside the outcomes and actions to be taken over the coming year.

Number of meetings held

The Board and its Committees have regular scheduled meetings and hold additional meetings as required to deal with matters as they arise. The Board has seven scheduled meetings each year, with the Board meeting at least annually to specifically consider strategy. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the Annual General Meeting (AGM) and any other General Meetings.

Board roles

The key responsibilities of members of the Board are as follows:

Position	Role
Chair	Responsible for leading and managing the Board, its effectiveness, and governance. Makes sure Board members are aware of, and understand, the views and objectives of major shareholders and other key stakeholders. Helps to set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
CEO	Responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.
CFO	Supports the CEO in developing and implementing strategy, in relation to the financial and operational performance of the Group.
Senior Independent Non-Executive Director	Acts as a sounding board for the Chair and a trusted intermediary for other Directors. Available to discuss any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or the Executive Directors.
Independent Non-Executive Directors	Responsible for bringing sound judgement and objectivity to the Board's deliberations and decision-making process. Constructively challenge and support the Executive Directors. Monitor the delivery of the strategy within the risk and control framework set by the Board.

Time commitment

Directors' commitments outside of Drax are kept under review to make sure they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of the Chair's letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the Non-Executive Directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy off-site event, and at least one site visit each year.

In addition, Non-Executive Directors are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of the Audit, Nomination and Remuneration Committees is an additional three to four full days a year in each case. However, in practice, considerably more time is devoted, particularly by the Chairs of the Committees.

Executive Directors may, with the prior approval of the Chair, take on one additional role in an external listed company. Neither of the Executive Directors have taken on such a role. Non-Executive Directors may, with prior approval from the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role. No requests for new external roles have been received from the Non-Executive Directors during the year.

Non-Executive Directors are encouraged to undertake visits to Drax operations and spend time with management and the workforce. This is designed to build and then maintain their knowledge of the developing business, and to understand the operational challenges. Visits undertaken in 2022 enabled the Board to assess the effectiveness of actions being taken and to scrutinise both the financial and non-financial impacts of the pandemic. More information on these visits can be found on pages 95 and 96 of the report.

Board composition and independence

The Board has reviewed the independence of each Non-Executive Director. None of the Non-Executive Directors who served during 2022 had any material business or other relationship with the Group. In addition, there were no other matters likely to affect their independence of character and judgement. The Board recognises that, in view of the characteristics of independence set out in the Code, length of service is an important factor when considering the independence of Non-Executive Directors. It also recognises that Directors who have served more than nine years may not be considered independent. The Board considers all the Non-Executive Directors to be independent.

Workforce engagement

In 2019, the Board selected the MyVoice Forums (MVFs) as the most appropriate means to facilitate workforce engagement. This decision was informed by the workforce forums already existing in parts of the business. These had demonstrated a sound basis on which to build a Group-wide framework of effective and direct engagement between the Board and the workforce.

Each business unit has a MVF, comprising approximately 10 colleague representatives. Across the Group, we have approximately 50 representatives, drawn from across career levels and jobs roles, and representing a range of diversity and experience. Collectively, the MVFs form a structured network of members across the Group, to ensure all colleagues' voices and views are heard.

The MVF chairs meet quarterly with the Chair and CEO to discuss colleague sentiment and to provide feedback on key topics. Each of these meetings features a discussion about the feedback on topics previously agreed to be important to the Board and workforce. Following each meeting, the Chair and CEO provide updates to the Board, to make sure all Directors understand the views of colleagues and feedback received. Engagement with the MVF chairs has been valuable in helping the Board gain ongoing feedback as the Group continues to evolve.

Topics discussed in 2022 included our return to offices following the Covid-19 pandemic and the move towards hybrid working. The Chair and CEO also gained feedback on internal events which had taken place and which were designed to raise awareness and encourage discussion about inclusion (Black History Month and Neurodiversity). Other topics included Russia's invasion of Ukraine and its impact on energy prices; the rising cost-of-living; Drax Power Station running coal; and biomass sustainability. The forums offer a safe space in which to address direct questions raised by the MVF chairs, and to discuss important issues.

The MVFs continue to be a key part of our listening strategy and work in tandem with the MyVoice engagement survey. The forums provide valuable, deeper insight to the survey themes and deliver further input to the resulting action plans.

Following the 2021 engagement survey, our MVFs provided valuable insight concerning career and growth opportunities. The engagement and feedback from the forums helped to shape and drive our plans, which has resulted in a 4% rise in favourable responses in the 2022 MyVoice survey compared to 2021.

Each week, the CEO sends an email to the entire workforce with an update on what he and the business have been doing, and with answers to colleague questions. During 2022, the CEO received over 1,900 questions on topics including the rising cost-of-living, and the impact on electricity generators of the Russian invasion of Ukraine, wider political changes and UK windfall taxes.

Corporate Governance Report continued

Board attendance 2022

The table below shows the number of meetings held and the directors' attendance during 2022.

Director	Date appointed as a director and member of the Board	Scheduled meetings[1]	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	7	7	100%
Philip Cox	1 January 2015	7	7	100%
Will Gardiner	16 November 2015	7	7	100%
Nicola Hodson	12 January 2018	7	7	100%
Kim Keating	21 October 2021	7	7	100%
David Nussbaum	1 August 2017	7	7	100%
Erika Peterman	21 October 2021	7	7	100%
Andy Skelton	2 January 2019	7	7	100%
Vanessa Simms	19 June 2018	7	7	100%

Notes:
(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.

Summary of the Board's activities in 2022

In addition to the topics discussed earlier in the Corporate Governance Report, the Board considered the following key items in 2022.

Board strategy event

- Over a two-day period in October 2022, the Board conducted its annual deep dive into strategy. The two days included presentations from management and discussions with various internal stakeholders from across the organisation. The sessions provided insight into market context, opportunities for the growth of the Group, including the deployment of BECCS internationally and explanation of key stakeholders involved in supporting the Group's plans. Discussions were also held on sustainability and the capabilities to enable the realisation of the Group's plans for growth using sustainable biomass.

Health, safety and wellbeing

- In April 2022, following a visit by several Directors to a selection of the North American sites, the Board discussed working practices and agreed that efforts to harmonise health and safety standards across all the Group's operations should be ongoing. In November 2022, the Remuneration Committee agreed that a safety KPI be reintroduced to the 2023 bonus scorecard. You can read more about this in the Remuneration Committee Report on page 156.

Operations

- Considered and approved the development of, and investment in, BECCS.
- Considered and approved the planning process to develop an additional underground pumped hydro storage power station at Cruachan – with the potential for more than doubling the electricity generating capacity at that site.
- Considered the risks related to the Government's request to operate the coal units if called upon, over winter 2022/23. See page 107 for more information.

Nomination Committee report

As the Group grows and evolves, having leaders with the right mix of skills and capabilities to deliver our strategy and purpose, is key.

Philip Cox CBE, Chair

Committee members

Philip Cox (Chair)
John Baxter
Nicola Hodson
Kim Keating
David Nussbaum
Erika Peterman
Vanessa Simms

Attending by invitation

CEO

Number of meetings held in 2022: One (1)

The Group Company Secretary is Secretary to the Committee.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	1	1	100%
Philip Cox	22 April 2015	1	1	100%
Nicola Hodson	12 January 2018	1	1	100%
Kim Keating	21 October 2021	1	1	100%
David Nussbaum	1 August 2017	1	1	100%
Erika Peterman	21 October 2021	1	1	100%
Vanessa Simms	19 June 2018	1	1	100%

(1) As explained on page 112, additional time and focus outside of formal meetings was given by Nomination Committee members to discuss the Chair's succession.

Terms of reference
The Committee's terms of reference are reviewed annually, most recently in February 2023. The terms of reference are available on the Group's website at www.drax.com/governance

Role of the Committee

The Committee's principal responsibilities are to:

- Keep under review the Board's structure, size and composition (including requisite skills, diversity, knowledge and experience) in relation to delivering the long-term success of the Group
- Ensure a succession planning process is in place for the Directors and other senior managers, including the identification of candidates (from both within and outside Drax) who align with the objectives of the business and Group
- Conduct the search and selection process for new Directors, taking advice from independent search consultants as appropriate
- Monitor and challenge initiatives and progress in addressing diversity and inclusion
- Report on the Board and Committee evaluation

Nomination Committee activities since the last report

- Discussed the process and search for a new Chair
- Non-Executive Directors considered the renewal of John Baxter's letter of appointment as part of a Board meeting
- Considered a report on succession planning at executive and senior management levels
- Reviewed and approved the updated Board Diversity Policy, to reflect FRC guidance

Introduction

I am pleased to present the Nomination Committee Report for the year ended 31 December 2022.

The Nomination Committee has overall responsibility for people matters, with a particular focus on Board level and senior management. To support the long-term success of the Company, the Committee also assesses the adequacy of internal processes. These processes concern reviewing and evolving the balance of skills, experience and diversity required which increasingly takes account of the Group's extended global footprint. The work includes challenging executive management on whether the capabilities within the organisation are sufficient, and the steps being taken to ensure appropriate assessment and forward planning takes place to support the delivery of the Group's strategy. The work also covers succession, through the development of existing talent and identification of alternative talent sources that might be outside the Group. Board members and senior management must be able to deliver the Group's purpose, and in conjunction with supporting and enabling that realisation consistent with our values, and to do so with due regard for the requirements of Drax's stakeholders.

Given the growing international presence and complexity of Drax, the Committee recognises the importance of having effective measures in place, embedded within the regular considerations and actions of the business that ensure management properly understand the requirements of our business. Drax requires people with new skill sets and experience in activities which the Group may not previously have undertaken. For example, delivering options for BECCS in North America continues to progress and, in 2023, we will be growing our teams in North America (including into new states in the US). In September 2022, we welcomed new colleagues at Drax Princeton (Princeton Standard Pellet Corporation), a site that will assist in our efforts to reach 8Mt p.a. of sustainable biomass pellets by 2030. During 2022, we also opened a sales office in Japan; the first time the Group has had a presence in Asia. This is an exciting step towards our strategy to increase biomass sales in the Asian markets. These developments demonstrate the significance of building strength amongst our colleagues, including senior management.

A priority for the Board and Nomination Committee is assessing how these developments in the business align with the Group's imperative of broadening diversity in the enlarged Group. We are also conscious of taking into account the local communities in which we operate, trends across wider society, and the ability of the Group – and its people – to adapt. We recognise that such work has its challenges, and the Board is committed to playing a role in shaping that activity. It is also dedicated to ensuring diversity, equity and inclusion are fundamental to the recruitment, retention, career progression and personal development activities across the business. We recognise that such activity is central to enabling the right culture and values of the Group, and to long-term success.

Succession planning and diversity

I was appointed to the Company as a Non-Executive Director in January 2015 and appointed to the position of Chair in April 2015. Since my appointment to the Board in January 2015 I have seen Drax change and grow, establishing itself as a business that is not only a key part of the UK's national infrastructure, but also leading new ways of supporting businesses and communities using innovative, reliable and sustainable sources of power generation. My third and final three-year term is due to expire in December 2023. As part of the 2020 review into my re-appointment for that final term, the Committee proposed the search for a successor should start early enough to allow for a thorough recruitment process. This is intended to facilitate an overlap period when the Chair-designate could join the Board with sufficient time to complete a meaningful onboarding process.

A robust process is in place to support the structured succession and to ensure objectivity. Our Senior Independent Director leads this and I will continue to provide input, as requested. Additional time and focus has been given by Nomination Committee members to discuss these matters, forming part of Board meetings and informally outside of meetings. Firstly, following a rigorous review of an initial six advisers by a subset of the Nomination Committee, four firms were invited to present. Following those presentations to the subset of the Committee, Heidrick and Struggles were appointed in October 2022. A key advantage of this firm has been its ability to conduct an international search, reflecting the structure of our growing Group across the US, Canada, Asia and Europe. Our structure also brings a level of complexity, so the search will include candidates with experience in large multi-national groups. It should be noted that Heidrick and Struggles is signed up to The Voluntary Code of Conduct for Executive Search Firms, which ensures it factors diversity considerations into its recruitment advice and has no other engagement with the Group or conflict which would impact their role.

During 2022, the Committee also reviewed and updated the Board Diversity Policy (the 'Policy'), with due regard for the FCA Policy Statement on diversity and inclusion on Boards and in executive management. The Policy states the Company's support for the recommendations from the FTSE Women Leaders Review and the Parker Review. It also confirms our objective to maintain at least 40% female director representation and to have at least one director from an ethnic minority. As shown on page 106, these targets are currently fulfilled. The Policy also highlights that the Board believes a commitment to diversity and inclusion is fundamental to achieving our strategic goals and delivering a zero carbon, lower cost energy future.

While recognising the steps already taken on diversity, the Board and Nomination Committee are conscious this remains an important element of ensuring the appropriate balance of skills, knowledge and experience. Members of the Board also continue to be strong advocates for enabling positive and constructive change in the wider workforce, which recognises the value from diversity.

Each year, the Committee reviews the Group's measures to enable succession planning and assesses alignment with the Group's strategy and the realisation of its objectives. This relates to the skills, capabilities and experience needed to deliver our strategy. The review includes identifying colleagues with the potential to progress into more senior roles, across a timeframe of one to five years. It also incorporates factors such as technical skills, experience, behaviours and attitudes. The most recent meeting considering these matters in depth was held in November 2022. The Board is of the view that high performing companies are enabled by greater diversity and has challenged management on the need for effective recruitment, onboarding and career development programmes that ensure diversity is proactively included. We remain of the view more needs to be done in these areas.

The review also included an assessment of the time required for identified candidates to be ready to assume more senior roles. During the discussions, the Committee offered views on the importance of providing each of the candidates with appropriate training. Management outlined the training implemented during 2022, how its evolution would encompass a wider cross-section of employees, and how targeted training supports them in their personal development. The Committee asked to be kept updated in 2023 to understand the progress being made. In addition, the Committee endorsed the need for ensuring there was a suitable level of understanding about the technical requirements of roles identified. Importantly this should take account of emerging technologies, as well as capabilities in new types of markets – for example markets for Carbon Offsets, in which the Group will need to participate and how such areas might inform recruitment processes.

As part of the succession review, the Committee discussed the Group's progress on gender diversity. This included work to identify talent earlier in career paths, for example by focusing on diversity data when hiring new employees and converting diverse job applicants into new hires. In 2022, the Company also set up partnerships to help attract diverse candidates. We adopted female-biased language when advertising for Apprentice Engineers, which resulted in an increase to the number of female applicants and subsequent engineer hires. The proportion of female apprentices increased, from 14% at the end of 2021 to 21% at the end of 2022. A ratio of one female to every four male apprentices is progress but we believe more needs to be done. During 2022, we also launched our Senior Leadership Development offering to support the growth of our senior leaders. This involves having a consultation with our internal leadership development experts to co-create

bespoke development journeys. Options available to employees include a diagnosis of development needs through psychometrics and 360-degree feedback and sourcing an executive coach or mentor. Options also include support in sourcing formal qualifications within a newly-created programme, which would be subject to evaluation and feedback. A total of 84 senior leaders took advantage of this offering in 2022, and we hope the number will continue to grow throughout 2023.

Currently, out of a total of ten Executive Committee members at 31 December 2022, four (40%) are female. No changes to the members of the Executive Committee were made during 2022. You can see more details about our Executive Committee members here: www.drax. com/about-us/corporate-governance/board-and-committees/.

The Board and senior management continue to recognise that Drax needs to do more, at all levels of the business, to support people from diverse backgrounds. The 2023 plan goes beyond gender, with a clear commitment to a supportive, diverse and inclusive working environment where you can be yourself and your contribution matters. We continue to invest additional resources into this important area with the recruitment and onboarding of a Diversity, Equity and Inclusion (DE&I) team. To engage colleagues more broadly with DE&I, and encourage consideration of the issues while taking positive steps to influence culture and behaviours, a series of key events took place. This included the Group marking Black History month in February 2022. At the start of the month, Non-Executive Director Erika Peterman recorded a personal video message for colleagues, and there was a live panel event where colleagues shared their experiences. Work was also undertaken to align the wellbeing strategy with inclusion, recognising the intrinsic link between an individual's sense of wellbeing and belonging. The organisation has also recognised the National Day for Truth & Reconciliation in Canada and held neurodiversity awareness events. The Colleague Resource Groups (CRGs) that represent gender, ethnicity, sexual orientation, and neurodiversity were launched in August 2022 and began recruiting for Chairs, sponsors and regional representatives. The goal is to further drive employee engagement, safety and wellbeing, and the work will continue into 2023. The groups aim to attract colleagues from across all our regions, to increase visibility, engagement and understanding about a range of topics.

The Nomination Committee and Board receives updates on management programmes to encourage a diverse workforce to pursue careers and qualifications that fit with the opportunities that Drax offers. These include apprenticeship schemes, training programmes, and experience days where young people can learn more about what we do and the roles available. The activities are an important part of our role in the industry, and they allow for two-way engagement. Our five-year programme with Selby College, which we started in 2020, continues and we have regular partnership meetings where we discuss opportunities for both parties to work together. The college has also delivered a course on BECCS and rolled it out to colleagues within the business; further cohorts are planned for 2023. In addition, the college continues to deliver our upskilling Engineering Manufacturing Technician Apprenticeship and we currently have 17 students on the course. The college also provides other engineering-related training.

Non-Executive Directors: terms of appointment

Under the Board's policy, Non-Executive Directors are appointed for an initial term of three years, which can be renewed by mutual agreement. For this to happen, the Board must be satisfied with the director's performance and commitment, and a resolution to re-elect at the appropriate AGM be successful. The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years.

What's more, the Board will rigorously review any proposal to extend a Non-Executive Director's aggregate period of office beyond six years.

In 2022, the Board considered the re-appointment of John Baxter, for a second term of three years. The Board considered John's skills and contribution, together with the feedback from the externally-supported evaluations of the Board and our Committees. Following this, and on recommendation from the Non-Executive Directors, the Board approved the extension of his appointment for a further three years, taking effect from 16 April 2022.

Board and Committee evaluation

The Board conducts an annual performance evaluation, ensures there are ongoing Board development activities, and provides a comprehensive induction for new Board members. In 2022, an externally-facilitated evaluation of the Board and its Committees was conducted by Board Alchemy. There is a detailed update on the Board evaluation process on page 107 and 108.

The external performance evaluator – Hanif Barma at Board Alchemy – commented in his report on the Board's progress regarding director diversity, since his last performance review in 2019. Pleasingly, feedback included in Hanif's 2022 review as provided by the Directors, is that both our Non-Executive Directors who were appointed in 2021 – Kim Keating and Erika Peterman – have made valuable contributions to the quality of Board discussions.

The evaluation also determined that the Board and Committees were led well by effective, inclusive chairs. It was also concluded that the Board and Committee members had the requisite skills and experience to provide valuable contributions and effective challenge. Hanif also highlighted the progress made regarding Director diversity. At its meeting in December, the Board assessed the performance evaluation report and progress in responding to the open recommendations from previous evaluations. The table on page 114 summarises progress from the most recent evaluations and how we responded to them in 2022.

The Nomination Committee is aware of the importance of ensuring existing Board members continue to develop their understanding as the Group evolves. This is highlighted in a recommendation from the independent performance review reported to the Board in December. One area identified was to consider 'refresher' training sessions on hedging strategy, trading and energy commodity markets.

Recommendations from previously-raised Board and Committee evaluations have been addressed, with certain items involving continued work and focus.

Previously-identified needs included making the best use of the Board's time to enable Directors to make the fullest contribution, and the processes around induction and obtaining external viewpoints. Improvements in the quality of papers submitted to, and presentations delivered by management at Board meetings were highlighted as potential remedies; efforts to refine and develop Board packs continue. During the October 2022 Board strategy meetings, the Board were complimentary on the progress the business had made in developing meeting materials and enabling informative discussions that resulted from them. As the business evolves and grows, the focus will be on the Board papers and what new and additional information is required to ensure ongoing rigour.

Nominations Committee Report continued

A summary of the key recommendations from the Board and Committee evaluations, and proposed actions, is provided below:

	Recommendation	Comments
1.	Provide 'refresher' development to Board non-executives in areas relating to hedging strategy plus trading and commodity markets. Adopt a structured approach to determining training needs for Board members.	During 2023 a number of training sessions will take place and Directors will be consulted on any individual training needs.
2.	Enable Board members to visit Drax assets more regularly, particularly since this has been difficult in recent years. Members should use visits as an opportunity to engage with staff.	The Board agrees that Non-Executive Directors would benefit from visiting at least one asset per year, outside of the usual schedule Board trips.
3.	Consider using the Chair succession exercise to meet new requirement for a woman to hold one of the four senior roles on the Board.	Diversity is actively being considered as part of the recruitment process. Heidrick and Struggles are also signed up to the Voluntary Code of Conduct for Executive Search Firms.
4.	Obtain specific feedback from Board members about how to further improve papers submitted to the Board.	Directors will be consulted about meeting materials.
5.	Ensure less-experienced members of the management team who present papers to the Board are consistently well-briefed and adequately prepared.	This action is part of an ongoing initiative to provide the opportunity for the Board to meet with a wider cross section of employees as part of routine business. From 2023 additional support will be provided to new presenters.
6.	Establish formal terms of reference for the Independent Advisory Board (IAB) to Drax, then regularly review and update them.	Terms of reference are in place and were last reviewed by the IAB in September 2022. They will be considered by the Board in 2023.
7.	The Board should discuss the merits of establishing a Sustainability Committee and, if the decision is to proceed, consider the timing of its launch and its remit.	The Board have asked the CEO to evaluate the potential contribution of a separate sustainability committee, including its objectives, constituent members and the degree of oversight provided by the Board to its conduct of business. This will be considered further by the Board in 2023.
8.	Give attention to the development of a digital strategy to support the broader business strategy and purpose of Drax.	A digital strategy will be developed and presented to the Board in 2023.
9.	At Board level, undertake a 'lessons learned' review of the Pinnacle acquisition and establish the practice of conducting similar reviews on a regular basis.	An initial paper on lessons learned should be presented to the Executive Committee, following which a Board discussion will be held in 2023.
10.	Consider resuming the practice of holding occasional Board meetings away from the London head office.	The Board agree that at least one Board meeting each year should be held at a different site. In addition, a Board visit to Cruachan Power Station is planned for June 2023.
11.	The Board should seek management views about how the Non-Executive Directors might better support the Executive in stakeholder management.	In 2022 the Board discussed how Non-Executive Directors could participate in stakeholder engagement beyond the regular work of the Chair. A Board paper detailing peer methods of engagement will be considered in 2023.
12.	The Board should discuss how to evolve support for local communities, particularly through the creation of employment opportunities for minority groups.	A paper detailing support opportunities will be presented to the Executive Committee, following which a Board discussion will be held in 2023.
13.	The Remuneration Committee's terms of reference should include a responsibility to annually review the performance of the remuneration consultants.	The terms of reference were updated and approved at the the February 2023 Remuneration Committee.

Embedding the Company's values and culture within the wider workforce is an area of continued focus. The Board's imperative of ensuring culture, values and behaviours is appreciated, and evidenced in many legacy operations, needs to continue to be embedded in the American and Canadian assets. As the business grows, it will also be important to understand and embrace the breadth of diversity in the communities where we operate, ensuring that people from diverse backgrounds feel supported and we learn from colleagues inside and stakeholders outside about how we as a Group can grow. There is more information about our work with local communities on pages 28 to 33.

Skills and knowledge of the Board

A key responsibility of the Committee is ensuring the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and strategy delivery. The Nomination Committee has reviewed the Board's composition, considering whether it has:

- The right mix of skills, experience and diversity
- An appropriate balance of Executive Directors and Non-Executive Directors
- Non-Executive Directors who can commit sufficient time to the Company to discharge their responsibilities effectively

Following the review, the Committee was satisfied that the Board continued to have an appropriate mix of skills and experience to operate effectively, now and for the future. All the Directors have many years of experience, gained from a broad variety of businesses. Collectively they bring a range of expertise and sector knowledge to Board deliberations, which encourages constructive, challenging and insightful discussions.

"The Board at Drax does many things well but most striking for me was the Board's mindset. It thinks broadly and deeply about how it does things, and is willing to challenge itself about the way it works. It is proactive but, as circumstances change, this mindset means it also reacts and responds with positive engagement from board members; the Board looks at things from different perspectives and reflects on feedback that it receives. Embracing diversity and inclusion has been an important enabler of this outcome, and this operates at two levels. Boardroom diversity is a key strength and, for example, the Board has responded to Drax's shift from UK to global business by internationalising the Board. The Board also actively promotes organisational diversity, understanding that this will underpin the business's long-term success. It engages actively with staff through the MyVoice Forum and asset visits, seeking to understand staff viewpoints. It is now striving for greater participation of local and indigenous communities in Drax's workforce." Hanif Barma, Board Alchemy

Renewal and re-election

Any newly appointed Director may hold office until the first AGM following their appointment. At that meeting, they must submit themselves for election by shareholders.

In accordance with the Company's Articles of Association, and in line with the recommendations of the Code, each of the Directors will retire annually and offer themselves for re-election by shareholders at the AGM. The evaluation and review of the Board and its Committees, described above, concluded that each Director continues to demonstrate commitment, management and business expertise in their particular role. They continue to perform effectively. Accordingly, John Baxter, Philip Cox, Will Gardiner, Nicola Hodson, Kim Keating, David Nussbaum, Erika Peterman, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM. Being eligible, they will offer themselves for re-election.

The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection (by prior arrangement) during normal business hours at the Company's registered office. They will also be available for inspection at the venue of the AGM, before that meeting takes place. Details are contained in the Notice of Meeting.

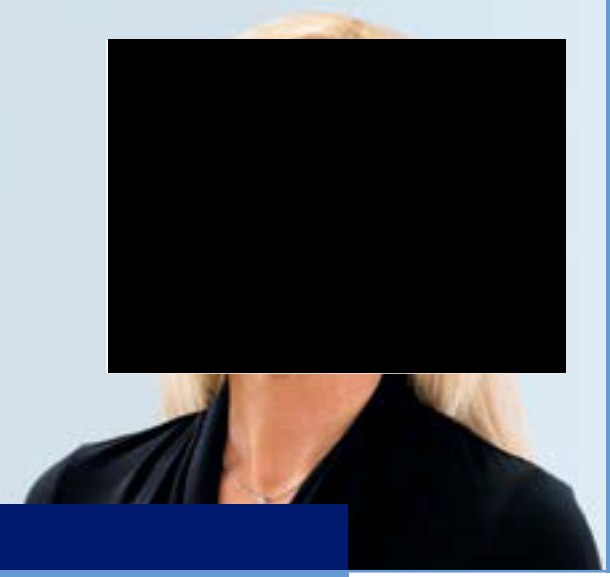
During the year, I met regularly with the Non-Executive Directors in the absence of the Executive Directors. Separately, the Senior Independent Director held a meeting with the Non-Executive Directors without me being present, as required by Provision 12 of the Code.

This report was reviewed and approved by the Nomination Committee.

Philip Cox CBE
Chair of the Nomination Committee
22 February 2023

Audit Committee report

The Committee seeks to ensure transparent and accurate reporting of financial and operational performance, and robust wider business controls



Vanessa Simms, Chair

Committee members

Vanessa Simms (Chair)
Nicola Hodson
David Nussbaum
Erika Peterman

The Board is satisfied that the Committee's membership has the appropriate level of independence, skills, and recent and relevant financial experience. Vanessa Simms, a chartered certified accountant, is CFO of Land Securities Group plc. David Nussbaum is a chartered accountant who has served in several senior financial roles. Details of the skills and experience of the Committee members can be found on pages 97 to 99.

Attending by invitation

Chair of the Board, CEO, CFO, Group Financial Controller, internal auditor (KPMG), external auditor (Deloitte), others as required.

Number of meetings held in 2022: Four

In addition to the meetings mentioned in the table below, Vanessa attended several planning meetings with management in advance to discuss key agenda items, plan for papers and ensure that her expectations were satisfactorily reflected in the matters discussed and explained. Vanessa also held meetings with the external auditor and internal auditor at intervals throughout the course of the year to discuss planning for work and specific items such as engagement with the Financial Reporting Council (FRC), progress on the evolution of the UK's governance environment and responses to recommended actions from previous reports.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Erika Peterman	21 October 2021	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%

John Baxter attended the April 2022 meeting by invitation.

Introduction

The role of the Audit Committee is to provide oversight of the financial reporting process, the internal and external audit process, the Group's system of risk management and internal control, and compliance with laws and regulations. This is to ensure transparent and accurate reporting that covers financial and operational performance and future prospects, and robust wider business controls required for the day-to-day conduct of all aspects of its business. Through this activity the Committee also assesses whether stakeholders are able to gain a fair and balanced understanding of how the Group is performing, its underlying resilience, and the effectiveness of the governance applied in the conduct of its business.

Such work is particularly important in times of volatility and uncertainty. 2022 saw continued macro-economic and geo-political challenges that have affected many aspects of society. This has included the ongoing conflict in Ukraine, the global energy crisis and inflationary pressures; each of which have impacted businesses and consumers. In such times, management have a responsibility to link the sound business practices mentioned above with proactively understanding and responding to the immediate challenges affecting our stakeholders and wider society. In turn, the Audit Committee considers the robustness of the process in making those decisions, challenges management on the tracking and assessment of emerging risks and evaluates the appropriateness of controls, including potential required changes required to those controls.

As described by Will Gardiner in his CEO report, on page 12, 2022 saw Drax continue to invest in delivering on its strategy and purpose. Progress made included, developing options for BECCS; commissioning of additional operational capacity of pellet production in North America; and delivering growth across our commercial operations. In so doing our employees worked exceptionally hard, responding to challenges such as securing the required volume of biomass to meet the demand of our plant in the UK and to fulfil third party supply contracts; working with customers facing uncertainty in meeting their energy bills; and developing the commercial frameworks that could support our

Terms of reference
The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at www.drax.com.

BECCS programme. In addition, colleagues responded to the impact on the UK of the energy crisis, in particular helping to bolster the country's energy security by providing a "winter contingency" service, making available for operation the coal-fired generation units at Drax Power Station to support the UK power system for the winter of 2022-2023 should they be called upon to operate.

Considering how to respond to the UK Government's request for a winter contingency, requiring Drax to provide the operational readiness of the Group's coal-fired generation units, was a key activity in 2022. We speak more about this process in the Corporate Governance Report on page 102. The evaluation involved consideration of multiple issues, which included the risks of ensuring the assets would be capable of operating if called upon by National Grid. The Audit Committee supported the Board in considering these issues. At our meeting held in July, management were asked to report back to the Board in the autumn on actual steps taken to ensure operational readiness and the mitigation of identified risks, on which they reported in November 2022. This allowed us to further assess the adequacy of steps taken and follow through on actions implemented which sought to mitigate identified features.

2022 began against a backdrop of increasing tensions in Ukraine, and the subsequent invasion by Russia in February 2022. With the introduction of sanctions regimes, Drax acted quickly to secure alternative sources of biomass to replace those of Russian and Belarusian origin. During the year, the Committee was appraised of the work being undertaken to transition to alternate sources, including the steps being taken by management to be assured of sustainable sourcing. This included reviewing the biomass acceptability principal risk, and the level of independent assurance obtained. More information on our sustainable sourcing practices can be found on page 40, and more information on our biomass acceptability risks can be found on page 86.

Geo-political tensions have further increased the threat of disruption to businesses and organisations from cyber-attacks. Our response to cyber threats is an important part of assessing the effectiveness of our internal controls. We explain in more detail our evaluation and response to cyber risks on pages 80 and 91. During 2022 the Committee received reports on cyber security and cyber risk management. This included both the threat assessment and the actions being taken, including the levels of future investment required in people, processes and systems. We also received information on the level of sophistication of threat activists. For example, the Committee considered the breadth of different attack strategies and the data captured on the form of such attacks.

The Group's generation assets form part of the UK's critical national infrastructure, and Drax is designated as an Operator of Essential Services. As such, Drax is required to maintain a defined level of resilience to defend against potential cyber-attacks. The Committee considered a report in April 2022 on how management is meeting its regulatory obligations and comparing the internal status to updated benchmark guidance from the UK Government. In November 2022 the Committee also considered a detailed report from the cyber security function on our independently assessed current state of preparedness, and recommendations on how to continue to enhance our capabilities, reflecting the evolving requirements of regulators in addition to management's own understanding of the emerging risks. The Committee will monitor actions resulting from these reviews at future meetings.

The Committee discussed the strength of the team, their experience and operational capabilities to evaluate the evolving threats and to implement the required resilience, in addition to the training and awareness promoted across the wider organisation to cyber-attacks. The Committee will continue to assess whether the capabilities of the team are at the appropriate level to maintain the required level of resilience. The Committee and Board have been supportive of enhancements including additional investment and recruitment as part of responding to the emerging threats.

Another consequence of the conflict in Ukraine has been to significantly increase volatility in global commodity markets. As discussed on page 80 this volatility increases certain risks to the Group, including those associated with an unplanned outage on our generating assets. The Committee was updated at each of their meetings during 2022 on how these increased risks are being managed, and the additional mitigations introduced by management to assess whether balanced and proportionate actions were being taken.

The Committee receives periodic reports on the work to assess compliance with material regulations or policy pertaining to the Group's activities. During 2022, this covered areas including cyber security, safety, and sustainability supported by reports from management and, where appropriate, subject matter experts.

Role of the Committee

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities. This includes undertaking the following:

- Monitoring the integrity of the financial statements and other information provided to shareholders
- Reviewing significant financial reporting issues and judgements contained in the financial statements, and inviting challenge from the external auditor on the approach taken
- Advising the Board on whether the Committee believes the Annual Report and Accounts are fair, balanced and understandable
- Reviewing the systems of internal control and risk management, including consideration of emerging risks
- Supporting the Board in establishing a culture of honesty and ethical behaviour, including oversight of whistleblowing procedures, fraud risk and controls
- Assessing the requirement for, and reviewing the outputs from, independent external assurance and verification
- Maintaining an appropriate relationship with the Group's external auditor and reviewing the effectiveness and objectivity of the external audit process
- Maintaining and monitoring the non-audit services policy to ensure the external auditor's independence and objectivity
- Making recommendations to the Board (to put to shareholders for approval) regarding the appointment of the external auditor
- Monitoring and reviewing the effectiveness of the internal audit function

As Chair of the Committee, I report to the Board on the Committee's activities and considerations following each meeting. All members of the Board also receive the minutes of each Committee meeting.

In undertaking its duties, each member of the Committee has access to the services of the Chief Financial Officer and the Group Company Secretary and the resources of their teams. The Committee also has access to external professional advice as required and deemed necessary. I hold meetings with the Chief Financial Officer, external auditor and internal auditor out of cycle from the formal meetings. I also attend planning meetings with those preparing for forthcoming Committee meetings to discuss relevant papers and key matters.

The Committee allows time at each meeting to speak in the absence of management or advisers. In addition, the Committee meets both the external auditor and the internal auditor without management present. Where required, this allows the Committee members to discuss areas for attention and identify potential areas of challenge. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matter giving them material concern, they should promptly draw it to the Committee's attention via the Chair of the Committee. No such issues were raised in 2022. The feedback from the recent Board and Committee evaluation is that such discussions support transparency and positive discussion.

Review of Committee effectiveness

In line with the FRC's Guidance on Committees, the effectiveness of the Audit Committee is periodically considered. During the autumn of 2022, an external review was undertaken of the Board and its Committees, including the Audit Committee (see page 107 for further details). The review concluded that the Audit Committee continued to work well. Meetings are chaired well; the Committee Chair is inclusive and encourages contributions from Committee members, who contribute freely, provide good challenge and ask pertinent questions. There is good engagement and positive relationships with both the external auditor and the internal auditor. High quality papers are produced to support the meetings and Committee members have fed back positively on the information they receive. The respective Committee Chairs work together well and coordinate when necessary (one such example being on target setting and assessment of reward outcomes for performance related incentives) to avoid a siloed approach to the work of the Committees. An internal review will be conducted in 2023.

Committee activities in 2022

The Committee follows a programme of work designed to ensure that sound risk management processes, a robust system of internal control and fair and balanced external reporting are in place. The Committee undertakes its duties reflecting an annual work plan, which is agreed at the final meeting each year for the following calendar year. In addition, where appropriate to activities in the Group or to reflect changes in applicable regulations or external conditions, agenda items are incorporated to ensure members of the Committee have the opportunity to consider and contribute to an analysis of material issues. The main areas of work undertaken by the Committee during 2022 at its routinely scheduled meetings are set out in the table below.

Reviewing the effectiveness of the system of risk management and internal controls

The Committee received updates on the Group's risk management and internal control environment and reviewed internal audit reports at each of the four meetings held during 2022. It gave particular focus to the emerging risks arising from the conflict in Ukraine and ongoing volatility within commodity markets, and how management were responding.

At its meeting in April, the Committee considered in detail how management had responded to the emerging risks from the conflict in Ukraine, including the formation of a working group, detailed tracking of risks, and the escalation of key items to the Executive Committee and Board as appropriate. In addition, a deep-dive was performed into the impact of the conflict on cyber security risks, incorporating information provided by external parties, and considering the actions both already taken and planned in response.

February	April	July	November
Item under review			
• The 2021 year-end review of key financial and reporting matters • An update on going concern and viability • Final report from Deloitte on its 2021 audit findings • The 2021 Annual Report and Accounts and preliminary results announcement • The verification process undertaken to support the 2021 Annual Report and Accounts • An update on the effectiveness of risk management and internal controls during the period • An update on the Group Assurance Map • Year-end risk review, including ongoing risks and mitigations arising from Covid-19 and emerging risks from the conflict in Ukraine • An update on whistleblowing • Summary of internal audit reviews for the period and outstanding actions • An update on the external auditor tender process	• Management update on key financial and reporting matters • The external auditor's management letter for the 2021 audit, including management responses and actions • An update on the effectiveness of risk management and internal controls during the period • An update on internal controls and risk management of cyber security, including the impact from the conflict in Ukraine • An update on whistleblowing • Summary of internal audit reviews for the period and outstanding actions • The effectiveness of the 2021 external audit process • Senior Accounting Officer reporting to HMRC • An update on the Group Tax Strategy	• The 2022 interim review of key financial and reporting matters • Report from Deloitte on its 2022 half year review findings • The external auditor's response to the report from the FRC's Audit Quality Review (AQR) team on its 2020 audit • Consideration of the 2022 Half Year Report and results announcement • An update on the effectiveness of risk management and internal controls during the period • Half year risk review, and reporting included in the Half Year Report • An update on internal controls and risk management of sustainability, supported by an external review • An update from the Ethics and Business Conduct Committee • An update on whistleblowing • The Audit Committee's terms of reference • The Auditor Independence Policy	• Management update on key financial and reporting matters affecting 2022 • Plan and timetable for the 2022 Annual Report and Accounts • Planning report from Deloitte on the 2022 audit, including response to AQR team report • Summary of internal audit reviews for the period, outstanding actions, and the proposed plan for 2023 • An update on Audit and Corporate Governance reform, and management actions • An update on internal controls and risk management of health, safety and environment • An update on the effectiveness of risk management and internal controls during the period • An update on the Group Assurance Map • A review of the Group's Principal Risks • An update on whistleblowing • A review of the ESG metrics published in the Annual Report and Accounts, and their verification • The effectiveness of the internal audit process

The Committee took part in several other deep-dive risk and internal control reviews during the year including wider cyber security risks, ethics and business conduct, health and safety, and climate change and sustainability. As part of the latter review, the Committee challenged management on the level of external assurance and verification of the data and statements included in the Group's external reporting. Following this, and a review of management's risk assessment, the Committee were satisfied with the level of assurance being provided.

Where the Committee feels it is of value, external parties are engaged to support with subject matter deep-dive reviews and those parties may be asked to attend Committee meetings to provide additional expertise and insight. For example, DNV Limited attended the meeting of the Committee in November 2022 to provide an update on their internal audit work around health, safety and environment, and their key findings.

Alongside the expert support provided by these external parties, management also co-ordinates an ongoing self-assessment and review of risk management and internal control activities covering the Group's principal risks. Control owners are required to provide a quarterly assessment on the operation of key controls, and to detail any potential gaps or control failures identified. These responses are then reviewed by a separate internal team, and the assessments of control operation and effectiveness are periodically verified.

This assessment is performed against the broader context of changes in both the underlying risks and also the environment in which the Group is operating, and considers whether prevailing controls remain appropriate. To support this, the Committee regularly reviews a detailed Assurance Map for the Group, covering each of the Principal Risks. This documents the different levels of assurance that are in place, and how they are structured. It also provides management's assessment of whether the overall level of assurance is appropriate, or has areas that require addressing. The Committee challenges management on this assessment and identifies any areas that they feel require further assurance, giving guidance or instruction on how that should be provided, where necessary.

Having reviewed the latest Assurance Map at their meeting in November 2022, the Committee was satisfied that there were no significant gaps in the levels of assurance maintained by Group. The Committee recognised the need for continued focus on the assurance around biomass acceptability, climate change and political and regulatory principal risks, as these areas are rapidly changing and can have a significant impact on the Group. Several actions were agreed at the meeting, to be implemented in 2023, including the further development of second-line assurance in these areas. Additional detail on the Group's Principal Risks and key mitigations can be found on page 78.

As noted above, conditions in energy markets remained volatile during 2022, and what initially appeared to be short-term pressure on prices at the start of 2022 became more prolonged. This has exposed the Group to the risk of an increased financial cost from an unplanned outage were such an event to occur, and can also present challenges in respect of liquidity and credit, requiring careful management.

The Committee received updates on the impact of these changes during the year, and the mitigating actions being taken by management to manage these evolving risks. This included the outputs from scenario and liquidity planning and stress testing to consider whether established trading, risk management, and plant operational policies remained appropriate in light of market conditions. The oversight and management of these risks falls under the remit of the Financial Risk Management Committee, (as detailed on page 103). The Committee was satisfied with the mitigating controls implemented to manage the underlying risks, and that potential future scenarios were being appropriately considered.

The Committee also works with the internal auditor, KPMG, to assess the broader system of risk management and internal control. The annual internal audit plan is designed with input from the Committee and wider management, and focuses on key areas of risk for the Group. This provides the Committee with an additional independent perspective on whether the key controls mitigating these risks remain appropriate and effective. Where appropriate, the internal auditor will provide detailed recommendations to improve the systems of risk management and internal control. Further detail on the role of internal audit is provided on page 125.

Updates provided to the Committee by management on risk management and internal controls during 2022 included financial reporting, and the continued development of the Group's financial control framework. This framework takes a risk-based approach to defining required levels of internal financial control, focused on mitigating the risk of material misstatement arising in the financial statements, due to either error or fraud. During 2022 the focus of this work was on continuing to drive consistency and best practice across the Group, and in particular aligning the approach across the Pinnacle operations, acquired in 2021. Significant work was also undertaken around the financial systems roadmap for the Group and on developing plans to harmonise and streamline approaches, with a focus on automation of controls where possible.

The continued enhancement of the financial control framework forms part of the Group's overall response to the corporate governance reforms proposed by BEIS ("Restoring trust in audit and corporate governance"). At meetings during 2022, the Committee received updates from the internal auditor on the latest developments in this area and discussed the planned approach in responding to potential future changes. This was supported by a deep-dive review at the meeting held in November 2022, which included an update on management's plans and the progress against these, as well as an assessment of the areas likely to require most focus in 2023. The Committee was satisfied with the progress being made in this area, and that the proposals published by BEIS are being appropriately considered and addressed by management.

As part of its routine business, the Committee review and discuss findings and action points arising from the internal and external reviews that are performed, to assess whether improvement plans are suitably robust and have appropriate delivery targets. None of the findings discussed during 2022 were considered individually or collectively material to the financial performance, results, operations, or controls of the business, but the assessments did identify opportunities for future improvements. Areas highlighted include how learnings from past health and safety events can be more rapidly incorporated into future working practices, and how access to automated systems must continue to evolve, including multifactor authentication.

The Committee considered information arising from internal whistleblowing reports. It discussed with management the scope of any investigation and challenged on the appropriateness of the steps being taken in response. The Board was also updated on these reviews separately. The Committee seeks to understand how matters identified in incidents inform training for colleagues and how actions by management can improve culture within our operations. An explanation of the Group's Whistleblowing Policy can be found on page 105.

Audit Committee Report continued

Reviewing key judgements and financial reporting matters

Explanations of all the Group's material accounting policies, critical accounting judgements, areas of significant estimation uncertainty and other material financial reporting matters are set out in the notes to the financial statements. The Committee reviewed these aspects of the financial statements, with a particular focus on the areas it deemed the most complex or subjective, as highlighted in the table below. In addition, the Committee considered how these matters are disclosed within the Annual Report and Accounts, to ensure that appropriate context and explanations are provided.

At each of its meetings the Committee receives a Financial Reporting and Accounting update from management, covering any key changes in the period, as well as emerging issues. These updates also incorporate any updated guidance or clarifications issued by bodies such as the FRC or FCA and management's assessment of the impact on the Group and the timing of any planned response. These papers are discussed with the external auditor in advance of the Committee meetings, ensuring that they have the opportunity to consider and provide their own views on the matters raised. This includes highlighting alternative approaches or accounting treatments to the Committee, to assist their consideration of management's conclusions and proposals.

Description	Audit Committee review and conclusion
Accounting for derivative financial instruments As described more fully on page 252, the Group makes use of derivative financial instruments to manage key financial risks facing the Group. The Group's balance sheet includes significant assets and liabilities arising from these contractual arrangements that are measured at fair value by virtue of being within the scope of IFRS 9. Judgement is required around which contracts meet specific criteria and which do not (and therefore remain outside the scope of IFRS 9) and may also be required in the valuation methodology applied, where different approaches or sources of input information may be adopted. A judgement is made that biomass contracts continue to fall outside the scope of IFRS 9, primarily due to the illiquid nature of the market and the contractual terms in place between counterparties. The market remains immature and there is not a readily accessible source of supply and demand at present. Where a fair value calculation is required, this typically involves a mark-to-market calculation, comparing the contractual price to prevailing market rates. As described on page 87, during 2022 there has been significant volatility in several of the markets most relevant to the Group, including power and foreign currency. The result of this volatility is that the valuation of these contracts has been subject to significant fluctuations during the year. The size and scope of the Group's derivative portfolio means that small errors in the valuation or disclosure process could have a material impact on the amounts included in the financial statements. In addition, whilst the inputs to these calculations are largely taken from observable market prices or data points, in certain cases more than one potential source of information is available. Whilst differences in these forward-looking assumptions are typically relatively small, the impact can become material when applied to a large portfolio of contracts. In addition, the volatility during 2022 resulted in the differences in source data increasing at certain points, as observable market prices can take time to fully incorporate rapid changes in the macro environment. The accounting and disclosure requirements in this area are inherently complex. As a result, the accounting, controls, and disclosures in relation to derivative financial instruments all remain key areas of focus for the Committee.	At each meeting, the Committee receives an update on any new classes of derivative financial instrument that the Group has entered into and the proposed accounting treatment. During 2022, there were no new classes of instrument that required review. Ahead of each reporting date, the Committee reviewed management's assessment that biomass contracts continue to fall outside the scope of IFRS 9. This involved comparing the requirements of the financial standard with the current situation in terms of observable practice and market conditions, and developments during the period. Having completed this review, the Committee was satisfied with management's assessment. However, it was noted that this is a critical judgement given the potential impact on the financial statements should biomass contracts be deemed to be within the scope of IFRS 9. At each of its meetings, the Committee was also updated on the overall valuation of the Group's derivative portfolio, and the movements in the period. The Committee considered the operation of the financial control framework around the valuation process, and the output from a rolling self-certification process. During 2022 the Committee gave particular focus to reviewing the improvements made to the valuation process, in light of the significant volatility in market prices and the corresponding fluctuations in valuations. These improvements include enhancements to the way in which credit risk adjustments are calculated and applied, increasing the granularity within the underlying valuation models, and more frequent detailed reviews of the most complex derivative valuations, including reconciliation to external valuations. The Committee also considered the impact of volatility during 2022 on the source data used in the valuation process. As a result, it was concluded that this should be disclosed in the Annual Report and Accounts as a key source of estimation uncertainty, as detailed opposite. Consideration was also given to the wider disclosures made around financial instruments, and the Committee were satisfied that these were appropriate and accurately described the closing position and potential impacts from future price movements. Based on these reviews, the Committee was satisfied that the controls in place around derivative financial instruments were robust, and that the enhancements to the control framework and valuation methodologies made during 2022 were appropriate. In reaching this conclusion, the Committee considered the opinion and recommendations of the external auditor, and the independent analysis performed by their specialist teams.

Description	Audit Committee review and conclusion
Impairment of goodwill and fixed assets The Group reviews its goodwill and fixed assets (or, where appropriate, groups of assets in cash-generating units (CGUs)) for potential impairment. Impairment reviews are triggered by either the existence of potential indicators of impairment at a given point in time or, in the case of goodwill and other intangible assets with indefinite useful lives, are conducted at least annually. As part of this review the Group reviews its classification of CGUs. As described on page 194, there have been no changes to this classification during 2022. When an impairment review is deemed to be required, the recoverable amount of the asset or CGU is assessed. This assessment is made with reference to the present value of the future cash flows expected to be derived from its value in use, or its expected fair value on sale. Assumptions that underpin the assessment of value in use for each CGU are based on the most recent Board-approved forecasts. The forecasts include all the necessary costs expected to be incurred to generate the cash inflows from the relevant assets in their current state and condition. Given volatility within commodity markets during 2022, certain assumptions can vary significantly from one period to the next. The reviews performed therefore also include sensitivity and scenario analysis to help the Board understand how changes in key assumptions impact the assessment. These include considering the prices of key commodities such as power and gas, as well as the potential impact of unplanned outages at different plants. Where these reviews suggest a potential risk of impairment, further detailed work is undertaken. The discount rates applied to the underlying forecasts (to take account of future risk and the time value of money) also represent an important assumption. These rates are reviewed annually with input from external experts. Market volatility, interest rates and inflation rates all impact the underlying calculation of these discount rates, and as such this area has required additional focus during 2022. Impairment arises where management determines, and the Audit Committee concludes, that the carrying amount of an asset (or group of assets) exceeds its recoverable amount. Further detail on this process and the assumptions made is provided in note 2.4 to the Consolidated financial statements.	At its meeting in November 2022, the Committee reviewed management's process and initial conclusions in respect of impairment for the 2022 financial year. Having considered and challenged management's reports, process and key assumptions, the Committee concluded that the overall approach to impairment reviews was appropriate, and was satisfied that the only potential impairments necessary during the year were in relation to the Abergelli OCGT project and the Daldowie energy from waste site, as described in more detail on page 195. The Committee also considered the accounting impact of the winter contingency service agreed on the coal units, and in particular whether any reversal of prior impairment charges was required. Having reviewed management's assessment, the Committee was satisfied that no such reversals were required, and that the assets in question would already have been fully depreciated. At its meeting in February 2023, the Committee reviewed a roll-forward of the analysis from November 2022 and considered any significant internal or external changes since that detailed analysis had been performed. This incorporated further analysis of the expected impact of the Electricity Generator Levy announced by the UK Government in November 2022. This review did not indicate any material changes in the conclusions, and the Committee was satisfied with management's assessment and the impairment charges proposed. Further scenarios and analysis were also considered to support the review of going concern and viability conducted by the Committee, discussed in more detail below. This analysis did not suggest any further indicators of impairment, and supported the conclusions reached. The Committee reviewed the impairment disclosures in the Annual Report and Accounts and concluded that the key assumptions and sensitivities had been appropriately disclosed, and that all statements made were supportable.

Audit Committee Report continued

Description	Audit Committee review and conclusion
Calculation and presentation of alternative performance measures As described on page 179, the Group presents Adjusted results excluding the impact of exceptional items and certain remeasurements. Adjusted results are consistent with the way Executive management and the Board review and assess the performance of the Group. The effects of exceptional items and certain remeasurements are presented separately in a column on the face of the Group's Consolidated income statement. The Group has a clear policy that sets out the transactions considered as exceptional for the purpose of this presentation, and the determination of certain remeasurements. However, the classification of transactions as exceptional and the separate presentation of certain remeasurements requires judgement. A full glossary of alternative performance measures referenced throughout the Annual Report and Accounts, including the closest equivalent IFRS measure and an explanation of why the measure is considered important, is provided on page 287. Further supporting reconciliations of certain alternative performance measures from relevant IFRS measures are provided in note 2.7 to the Consolidated financial statements.	The Committee plays an important governance role in the classification and presentation of items as exceptional in the financial statements. At each Committee meeting, management presents a paper that sets out the transactions proposed to be classified as exceptional in the period. The Committee reviews this paper, and challenges each of the individual items. Formal approval of the classification is provided at reporting dates. In 2022, the Committee challenged management around the write-off of historically capitalised SaaS costs, recorded as an exceptional item in the year. This was to ensure that the treatment was consistent with the agreed policy and was not business-as-usual expenditure. As a result of this review the Committee was satisfied that recording the historic write-off as exceptional was appropriate, whilst current period and future costs would be reflected in underlying results, as described on page 177. In addition, the Committee reviewed the definition of alternative performance measures in the year to ensure that they remained appropriate. As a result of this review it was determined that the primary Net debt metric reported in the Annual Report and Accounts should be updated to incorporate the impact of derivative financial instruments specifically used to hedge the impact of fluctuations in foreign currency denominated debt. At its meeting in February 2023, the Committee reviewed the final classification of transactions as exceptional or certain remeasurements in the 2022 financial statements. It also considered the calculation and presentation of alternative performance measures in the 2022 Annual Report and Accounts. Having considered analysis from management, and the opinion of the external auditor, the Committee was satisfied that the approach taken is appropriate. It was also satisfied that the Annual Report and Accounts for 2022 are fair, balanced and understandable.

Description	Audit Committee review and conclusion
Review of other significant judgements and estimates The other areas of significant judgement and key sources of estimation uncertainty in the financial statements are set out on page 178. Management regularly reviews these other areas to ensure they are kept up to date, and also considers whether other items should be included. As part of the preparation for the 2022 Annual Report and Accounts, management considered the level of provision required for expected credit losses in the Customers business. This took account of market conditions, current UK Government support schemes and any observed changes in customer payment habits. Management also considered whether the provision represents a key source of estimation uncertainty under IAS 1. As noted in the 2021 Annual Report and Accounts, during 2021 it was deemed appropriate to commence capitalisation of certain costs associated with the BECCS project at Drax Power Station, based on an increasing level of confidence in the development of the project in the future. As total capitalised costs on this project are now material to the financial statements, this is deemed to represent a significant judgement under IAS 1. In November 2022, the Committee reviewed and discussed a paper from management outlining how the potential future impacts of climate change had been considered in preparation of the financial statements, covering areas such as impairment reviews and the useful economic lives of the Group's fixed assets.	At each of its meetings, the Committee reviews a paper prepared by management that summarises key financial reporting updates for the period. This paper includes a summary of significant accounting judgements and key sources of estimation uncertainty and an update on any changes in the period. In particular, any material emerging issues are discussed in detail. During 2022, the Committee reviewed the approach taken to calculate expected credit loss provisions in the Customers business. It noted the impact of the Government's Energy Bill Relief Scheme, which came into effect in October 2022, and the performance of cash collection against billing seen during the year as a whole. Having completed this review, the Committee was satisfied that the approach adopted in the calculation was appropriate. The Committee also concluded that the risk of a material change in the estimated carrying value of related assets within the next financial year was unlikely, and that therefore this does not represent a key source of estimation uncertainty under IAS 1. The Committee reviewed management's assessment that capitalisation of certain costs associated with the UK BECCS project remained appropriate. As part of this, the Committee noted that the total amount capitalised under this project was now material, and so this item warranted inclusion as a significant judgement in the financial statements. The Committee also noted that judgements were being made to not yet capitalise costs associated with other potentially significant future projects, such as the expansion of the Cruachan pumped storage power station and BECCS projects in the US. The Committee was satisfied that the proposed disclosure incorporated sufficient detail to cover these areas. Having considered the other matters raised in management's papers, the Committee was satisfied that the items disclosed as critical accounting judgements and key sources of estimation uncertainty on page 178 are appropriate and complete. In addition, the Committee was satisfied that the descriptions clearly and accurately reflect the matters disclosed and the positions taken.

Reviewing the 2022 Annual Report and Accounts

At its meeting in November 2022, the Committee received reports from management on its planning for the various elements of the 2022 Annual Report and Accounts. This included a timetable for preparing drafts and for the contributions, including peer review and commentary, being made by members of the wider management and Executive teams. The Committee also discussed how such review would support the task of ensuring the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.

Between the year-end date and the date of the approval of the Annual Report and Accounts, the Committee Chair was updated on progress with the year-end audit process and key financial reporting matters. Updates were also provided by the external auditor and the internal auditor. At its meeting in February 2023, the Committee reviewed both the external auditor's findings and the draft 2022 Annual Report and Accounts.

The Committee also reviewed and approved the verification process undertaken by management around key information included in the Annual Report and Accounts. This included reviewing the results of internal and external assurance received around specific disclosures and sections of the report, and considering the overall level of review and assurance. Having completed this review, the Committee was satisfied that the verification process was robust and that key information and statements included within the Annual Report and Accounts were supportable.

As part of this review, the Committee considered the internal controls, forecasts and relevant assumptions underpinning the Viability Statement and the ongoing adoption of the going concern basis in preparing the financial statements. This included assessing a scenario analysis prepared by management, reviewed by the external auditor, which considered the potential future impact of the Group's principal risks on its financial projections. Particular focus was given to the scenarios relating to plant operations and commodity price risks, given current market conditions, and the medium to long-term impacts they could have. This is discussed in further detail on page 75.

The Committee challenged the assumptions made around availability of finance and covenant compliance, and considered the appropriateness of the period of assessment for viability. Whilst management and the Board consider longer-term forecasts for other purposes, including strategic planning and capital allocation, the Committee concluded that it was appropriate for the assessment period to remain at five years.

The Committee was satisfied that the proposed viability statement was robust, fair and balanced, including consideration of the disclosure around longer-term term risks extending beyond the viability assessment period. In addition, the Committee was satisfied that the level of assurance, challenge and verification was appropriate, whilst taking into account the work undertaken by the external auditor. Consequently, it was also concluded that the ongoing use of the going concern basis of preparation for the financial statements was appropriate.

As noted above, the Committee considered and reviewed management's disclosure on certain remeasurements and exceptional items (see page 178) and the presentation of these items in the Consolidated income statement. This included a review of the calculation and presentation of alternative performance measures. The Committee was satisfied that the use of alternative performance measures and the way in which they are presented remains appropriate, and that they provide helpful information to the users of the Annual Report and Accounts.

Fair, balanced and understandable

As a result of the Committee's review, it advised the Board of its conclusion that the 2022 Annual Report and Accounts, taken as whole, were fair, balanced and understandable. This view is underpinned by the Committee's discussions with operating and finance management regarding the Strategic Report, and with the finance team regarding the financial statements. In addition, the Committee believes that the Annual Report and Accounts provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy, and that statements made are supported by appropriate verification and assurance, including those made around the systems of risk management and internal control.

External audit

Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor during the year and does so annually. Deloitte LLP (Deloitte), who have performed the role of external auditor continuously since 2005, were reappointed at the AGM in April 2022. Makhan Chahal became lead Audit Partner in 2021 and has significant listed company and sector-specific auditing experience.

The Committee's review primarily considered the independence and objectivity of Deloitte, its professional competence and past performance. The Committee also considered the robustness of the audit process including, in particular, the level of challenge given to critical management judgements and the professional scepticism being applied. This took account of the Committee's discussions with the external auditor around areas of higher audit risk and the basis for the auditor's conclusions on those areas. During 2022 this included a particular focus on the annual impairment review process and the valuation of derivative financial instruments. The Committee was satisfied with the level of ongoing challenge applied by the external auditor.

The annual review of effectiveness also incorporated feedback from members of the finance and wider management teams. The Committee sought their views on matters including the quality of audit work and engagement whilst planning and executing the audit, both at a Group and business unit level. In addition to completing an annual review, the Committee considers the effectiveness of the external auditor throughout the year and discusses this point at each meeting. This ongoing review incorporated any relevant external information, such as the FRC's annual Audit Quality Inspection and Supervision Report, which was published in July 2022 and included an assessment of Deloitte and other large audit firms.

As reported in the 2021 Annual Report and Accounts, during 2021 Deloitte's audit of the Group's 2020 financial statements was selected for review by the FRC's Audit Quality Review (AQR) team. The Committee considered in detail the findings from the final report from the AQR, together with Deloitte's responses in each area and their proposed future actions. In addition, the Chair and Audit Partner discussed the final report, and the Chair met with the FRC directly to understand their key findings and recommendations.

The Committee noted two key areas recommended for improvement in relation to the work performed, around expected credit loss provisions within the Opus Energy business, and the assessment of discount rates used by management in performing impairment reviews of non-current assets. The Committee considered Deloitte's proposed actions in these areas as part of the presentation of their 2022 audit plan at both the July 2022 and November 2022 meetings, and also considered the

improvements that had already been incorporated into its audit of the Group's 2021 financial statements. The Committee reviewed the conclusions from Deloitte's revised approach at their February 2023 meeting, and the additional work that had been performed. Improvements made to the audit approach included further utilisation of specialist teams within Deloitte (covering both credit provisions and data analytics) and additional corroboration of management assumptions against independent external data sources.

Having considered the actions taken and improvements made by Deloitte to address the areas identified in the AQR team report, the Committee concluded that there were no matters which cast significant doubt on the fundamental quality of the audit process. It was also noted that no adjustments to the financial statements were required as a result of this review.

Based on its overall review, and satisfactory consideration and response to the AQR team report, the Committee is satisfied that the external auditor and its audit has continued to be effective. The Committee agreed that the external auditor's work demonstrated an ongoing commitment to audit quality, that the audit process was robust, and that Deloitte had shown strong levels of technical knowledge and appropriate professional scepticism in its work.

As reported in the 2021 Annual Report and Accounts, a tender process for the Group's external audit was conducted during 2021, in accordance with the UK Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR), which require all Public Interest Entities to rotate their external auditor at least every 20 years. As a result of the process, in January 2022 the Board agreed to appoint PwC as the Group's auditor for the financial year ending 31 December 2024, subject to shareholder approval. Deloitte will continue in its role as external auditor for the financial year ending 31 December 2023, also subject to shareholder approval, and PwC will shadow Deloitte in respect of this audit as part of an orderly transition.

Independence of external audit

The Group has an Auditor Independence Policy (AIP) that defines procedures and guidance under which the Company's relationship with its external auditor is governed. The AIP also facilitates the Committee being able to satisfy itself that there are no factors that may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the external audit process. The Committee reviews the AIP annually and last did so in July 2022. As part of this annual review, the Committee considers areas of development in best practice and guidance. The main features of the current AIP (which is available at www.drax.com) are:

- A requirement to review the quality, cost effectiveness, independence and objectivity of the external auditor
- A requirement to rotate the lead Audit Partner every five years, and processes governing the employment of former external auditor employees
- A policy governing the engagement of the auditor to conduct non-audit activities, which is expected to occur in very limited circumstances and is kept under review at each meeting of the Committee

The external auditor also reports to the Committee on its own processes and procedures to ensure independence, objectivity and compliance with the relevant standards.

The amounts paid to the external auditor during each of the financial years ended 31 December 2021 and 2022 for audit and non-audit services are set out below and in note 2.3 to the Consolidated financial statements (page 193).

Schedule of fees paid to Deloitte LLP	**Year ended 31 December 2022 £000's**	Year ended 31 December 2021 £000's
Audit fees:		
Statutory audit of Drax Group	**1375.0**	1,250.0
Statutory audit of the Company's subsidiaries	**40.0**	40.0
Total audit fees:	**1,415.0**	**1,290.0**
Interim review	**115.0**	110.0
Other assurance services	**46.2**	42.3
Assurance services provided to non-material affiliates	**18.0**	16.4
Corporate refinancing fees	**65.0**	–
Reporting accountant fees	**–**	469.0
Total non-audit fees:	**244.2**	**637.7**
Total auditor's remuneration	**1,659.2**	**1,927.7**

As noted opposite, the external auditor should not provide non-audit services where it might impair its independence or objectivity. Therefore, any engagement for the provision of non-audit services requires prior approval from the Committee or Committee Chair. Agreement to allow the external audit firm to perform additional non-audit services is taken only after considering two key factors. Namely, that the non-audit services policy has been fully applied and that any engagements are in the best interests of the Group and its key stakeholders.

During 2022 there was a decrease in the level of non-audit services provided by Deloitte, with the most significant item being the Group's interim review. In 2021, Deloitte provided support in a limited reporting accountant role in respect of the shareholder circular for the acquisition of Pinnacle, with fees totalling £469,000.

In all cases the Committee was satisfied that the work was best handled by the external auditor because of its knowledge of the Group, and that the services provided did not give rise to threats to independence. The Committee was also satisfied that the overall levels of audit and non-audit fees were not of a material level relative to the income of Deloitte as a whole, and that the level of non-audit fees was below the 70% cap, based on the average audit fee for the preceding three years.

Auditor reappointment

The Group has fully complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Committee Responsibilities) Order 2014. The Committee discussed the appointment of an external auditor at its meeting on 20 February 2023 and recommended to the Board that a resolution to re-appoint Deloitte as the Group's external auditor should be put to shareholders at the AGM in April 2023.

Internal audit

The Group has adopted a fully outsourced model for internal audit since 2020. KPMG has acted as the Group's main internal auditor since this model was implemented, supported by an internal team which acts as an interface with the business. The internal auditor presents an annual plan to the Committee for approval at its final meeting of the preceding year. This proposed programme of work is based on the assessment of the internal auditor, taking into account input from interviews with key internal stakeholders from finance, risk and wider management.

Audit Committee Report continued

The Committee reviews this plan to ensure that priority is given to the areas of highest risk for the Group, while maintaining appropriate coverage of all other key risks. Fees are agreed on an audit-by-audit basis depending on the scope and requirement for specialist input, whilst being managed within an overall annual budget. Having reviewed the plan for 2022 in detail, the Committee subsequently approved it.

The Committee receives reports at each meeting regarding the reviews completed since its last meeting, and progress against the overall annual plan. The Committee reviews the findings and agrees the recommended actions and delivery dates for improvements, taking into consideration supporting analysis from management on the root causes of any weaknesses.

Key topics reviewed by the internal auditor during 2022 included Accounts Payable, Risk Management, and Regulation and Compliance. These reviews each provided recommendations to the Committee and management on how to further improve the system of internal controls, including suggested enhancements around segregation of duties when placing orders with suppliers, and the oversight of trading activities by the internal Compliance team. The recommendations, and suggested timelines, were agreed between management and the internal auditor before being presented to Committee. Aside from a small number of cases where the Committee asked for activities to be accelerated, all actions and target dates were approved.

In addition, the internal auditor provided information to the Committee at each meeting around the ongoing progress of the BEIS consultation "Restoring trust in audit and corporate governance". This included a deep-dive at the Committee meeting in November 2022, following the publication of the results of the consultation in May 2022, at which management's action plans and progress in relation to each of the key areas of the consultation were considered.

In conjunction with reports from the internal auditor on reviews completed during the period, the Committee also receives reports from management detailing progress on implementing recommendations from previous reviews, tracking this against the originally agreed implementation dates as described above. This allows the Committee to effectively monitor management's response. Having reviewed these reports, and received assurance from the internal auditor around the effectiveness of the overall tracking process, the Committee was satisfied that actions were being implemented on a timely basis.

The Chair of the Committee, independent of management, maintains direct contact with the internal auditor, allowing open dialogue and feedback.

Health, safety and environment

Where relevant, and agreed between the Committee and the main internal auditor, additional external parties may be engaged to support with independent internal audit reviews. This is typically in highly specialised areas, to increase the overall level of assurance gained from the programme of internal audit work.

As reported in the 2021 Annual Report and Accounts, during 2021 the Committee reviewed and supported the appointment of a new external consultant DNV Limited (DNV) to provide an assessment of the Group's health, safety and environment practices. The Committee received an update from management on progress against previously agreed actions at its meeting in July 2022, and a deeper dive update from DNV at its meeting in November 2022.

Changes implemented during 2022 included improvements around contractor management, as well as the roll-out of a new Group-wide IT system to capture and report on incidents, allowing increased transparency and accountability for site performance.

During 2022 DNV's programme of work has continued to focus on the three dimensions of Human, Organisational and Technical processes across the Group, and has also expanded to cover additional areas including safety culture within Pellet Production and a HSE governance review in relation to the BECCS project at Drax Power Station. Opportunities for improvement identified during 2022 include a continued focus on learning from past events and further development of emergency response identification.

Effectiveness of internal audit

The Committee reviewed the overall effectiveness of the approach to internal audit, and in particular the effectiveness of KPMG, at its meeting in November 2022. This review included the Committee's own views, and also incorporated feedback from members of the wider management team, covering areas such as scoping of reviews, level of subject matter knowledge and reporting of findings. KPMG also provided their feedback on interactions and engagement with management, and updated the Committee on this at each meeting during the year.

Based on its review, the Committee is satisfied that the approach to internal audit remains effective and that KPMG, as the Group's main internal auditor, continue to provide the requisite quality, experience, and expertise in both its work and reporting to the Committee.

This report was reviewed and approved by the Audit Committee.

Vanessa Simms
Chair of the Audit Committee
22 February 2023

Remuneration Committee report

We are proposing a new Remuneration Policy which rewards long-term sustainable performance and value creation for shareholders.

Nicola Hodson, Chair

Committee members

John Baxter
Philip Cox
Kim Keating
Vanessa Simms

Attending by invitation

CEO, Chief People Officer, Group Head of Reward, and external remuneration advisers. The Group Company Secretary is the Secretary to the Committee.

Number of meetings held in 2022: Three

In addition to the below, Nicola regularly attended planning meetings to consider key agenda items.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	3	3	100%
Philip Cox	22 April 2015	3	3	100%
Kim Keating	21 October 2021	3	3	100%
Nicola Hodson	12 January 2018	3	3	100%
David Nussbaum[1]	1 August 2017	3	3	100%
Vanessa Simms	19 June 2018	3	3	100%

(1) David Nussbaum stepped down as a member of the Committee on 31 December 2021. David still attended all meetings in 2022 by invitation to provide input on the review of the Directors' Remuneration Policy.

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code.

Terms of reference
The Committee regularly reviews its terms of reference, as does the Board. The most recent review was in November 2022. The terms of reference are available on the Company website at www.drax.com/governance

Role of the Remuneration Committee

The principal responsibilities of the Remuneration Committee (the Committee) are to:

- Develop the Directors' Remuneration Policy (the Policy)
- Keep under review the implementation of the Policy
- Determine the remuneration strategy and framework for the Executive Directors and Executive Committee members, ensuring that executive remuneration is aligned to the Group's purpose, values and strategy
- Determine, within that framework, the individual remuneration packages for the Executive Directors and senior management
- Approve the design of annual and long-term incentive arrangements for Executive Directors and senior management, including agreeing targets and payments under such arrangements
- Determine and agree the general terms and conditions of service and the specific terms for any individual within the remit of the Committee, either upon recruitment or termination
- Oversee any major changes in colleague remuneration throughout the Group, ensuring there is consistency with the culture and values of Drax

Remuneration Committee report continued

Key Remuneration Committee activities in 2022

The key matters considered, and decisions reached, by the Committee in 2022 are shown in the table below:

Our workforce

- Considered the remuneration of the wider workforce in the context of cost of living pressures. Also received updates on broader remuneration matters relating to the wider workforce.
- Reviewed the application of the increases from the annual pay review effective 1 April 2022 and 1 January 2023.
- Approved the outcome of the 2021 Group Scorecard and in turn approved the outturn of the 2021 Group Bonus Plan.
- Reviewed and approved the reporting of the 2021 Gender Pay Gap statistics.
- Adopted the 2022 Group Scorecard for the purpose of determining the 2022 Group Bonus Plan.
- Approved the operation of the 2022 Sharesave Share Plan for UK colleagues.

Executives and senior management

- Considered and approved the remuneration of Executive Directors and senior management.
- Approved Executive Director and Executive Committee member annual bonus awards for 2021.
- Approved the Deferred Share Plan awards (for Executive Directors) and LTIP awards for 2022.
- Approved the vesting of the 2019 PSP awards.

Committee governance

- Conducted a process for recruiting, and subsequently appointed, a new independent adviser to the Committee.
- Considered and approved the Committee's Annual Report on Remuneration for 2021.
- Conducted a full review of the Policy, including a comparison of the Policy against the requirements of the Corporate Governance Code.
- Developed the terms of a new Policy and initiated engagement with shareholders for feedback.
- Reviewed the fees paid to PwC and Korn Ferry, as the Committee's remuneration advisers in 2022, together with fees paid by the Group to PwC for other matters.

Annual Statement to Shareholders

Dear shareholders,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2022 financial year. The Group delivered impressive financial performance in 2022 and made significant progress on the Group's key strategic objectives. It is noted that the strong performance was not without its challenges for the business and for our colleagues. The rising cost of living has had a significant impact on our colleagues across the Group. Their response in contributing to the delivery of the Group's plans is recognised and appreciated.

Management and the Board believe the financial stability and wellbeing of our colleagues is of paramount importance and therefore we took decisions in the year to support our colleagues through these difficult times. The Committee firmly believes that remuneration outcomes must be fair, appropriate in the context of business performance, and consistent across the wider workforce. The remuneration outcomes for 2022 have been assessed in line with these principles.

Review of decisions made during 2022

Annual assessment of performance

The Committee determines the remuneration of the Executive Directors and members of the Executive Committee against the objectives and priorities of the Group. For 2022 we achieved this through considering performance against a combination of strategic and financial metrics. The 2022 Group Scorecard (Scorecard) included metrics reflecting key objectives for all business areas, including Generation, Pellet Production and Commercial. It also included metrics reflecting progress on strategic objectives, people, sustainability and environmental practices.

The Generation and Commercial businesses performed very strongly in 2022. The performance of Pellet Production was slightly behind budget but it still delivered robust performance, particularly in the context of external factors such as the impact of adverse weather during 2022. A detailed review of the achievement against the performance metrics in the Scorecard can be found on page 147.

The Committee determined that the overall performance outcome of the Scorecard represents a fair reflection of the business performance during 2022. The level of payout is commensurate with the experience of both shareholders and colleagues over this period. The Committee did however accept Will Gardiner's recommendation to reduce the formulaic outturn of the bonus to reflect safety performance in 2022. Whilst there were no serious safety incidents in 2022, the number of injuries recorded was higher than the standards we set. The Scorecard specifically has a safety moderator provision to allow for such eventualities. The final outturn of the annual bonus plan was 1.75 and this score results in 87.5% of the maximum annual bonus being paid to the Executive Directors. In accordance with our Policy, 40% of the overall bonus award will be deferred into shares and 60% will be paid in cash in the March 2023 payroll.

Long-term assessment of performance

Awards granted in 2020 under the Long Term Incentive Plan (LTIP) were subject to performance criteria stated in the Policy approved by shareholders in 2020. Vesting of these awards was determined based on performance against two measures over the three-year period from 1 January 2020 to 31 December 2022. The measures were Total Shareholder Return (TSR), relative to the FTSE 350, and Cumulative Adjusted Earnings Per Share (EPS), each accounted for 50% of the award. TSR over the three-year period was above the upper quartile (a rank of 5 out of the FTSE 350). The EPS outcome was 144.7p,

which was 23% ahead of the maximum target of 117.5p. The TSR and EPS performance resulted in full vesting for both performance measures.

The full performance vesting of the 2020 LTIP is reflective of the exceptional shareholder returns. The data in the chart at the bottom of the page shows how the value of £100 invested in both Drax and other leading Energy companies on 1 January 2020 has changed in the period to 31 December 2022.

The vesting of the 2020 LTIP is also relative to Drax's performance over the period. This included the impact of the pandemic (which includes the impact on earnings for 2020 and 2021: a reduction in EBITDA of £75 million), inflationary pressures and higher commodity prices. Over this same period, there has been considerable progress made on Drax's strategy and purpose. This included the divestment of the combined cycle gas generation turbine assets (CCGT); the acquisition of Pinnacle and significant progress in the development of plans for BECCS. This progress and prospects for long-term growth have remained underpinned by good operational and financial performance, with strong cash generation and dividend growth.

In addition to looking at Drax's performance in the round, the Committee also recognised other factors. Specifically, over the period since the grant of the 2020 award, Drax's share price has increased from 200p to an average share price over the last quarter of 2022 of 579p. Whilst being cognisant of the guidance from the Investment Association on potential windfall gains from 2020 awards granted during the first pandemic lockdown, we are not scaling back the award on vesting because:

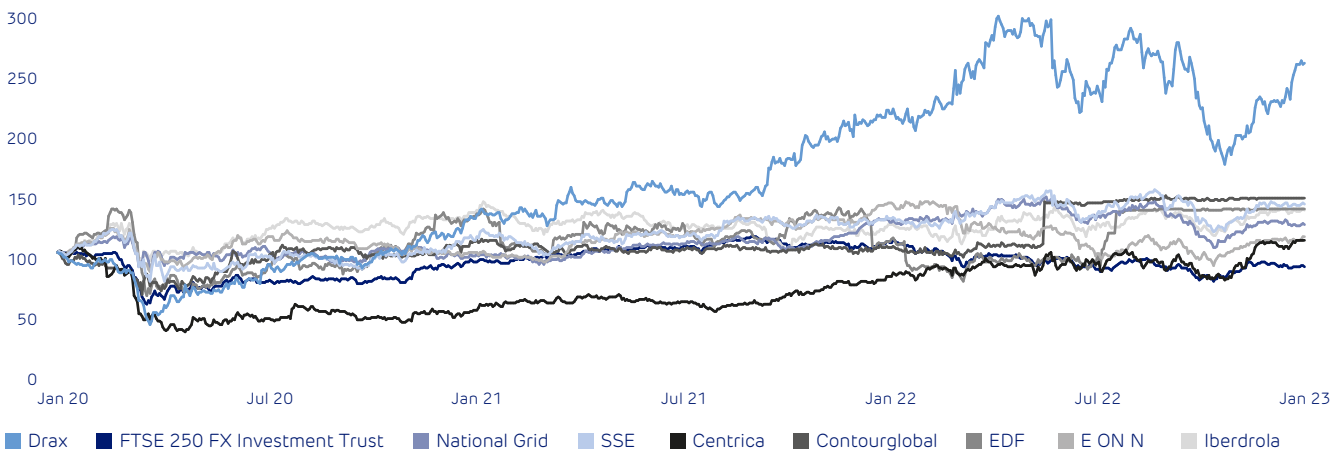
- The 2020 award was not granted at a Covid 'low point'. The share price was as low as 134p in 2020 and was at 250-350p for most of the preceding year. The 2020 award was granted from a share price of 200p.
- With a rank of 5 out of the FTSE 350 constituents, Drax's TSR performance has been exceptional over the performance period (measured from the start of 2020, when the share price was higher than the grant price). This shows that the share price is not simply reflective of a general market bounce-back. The chart shows Drax's performance was well into the top quartile and that Drax has the highest TSR in the sector. Drax's closing share price on 31 December 2022 was 703p, 124% higher than the 314p share price at the beginning of the three-year period that pre-dated the pandemic impact.
- The three-year EPS target was established prior to the date of grant for the performance period 1 January 2020 to 31 December 2022, considering both internal forecasts and market expectations at that time. Whilst power prices started to increase during 2021, the Group's hedging policy meant the impact on the results was limited to the unhedged element of 2022, the final year of the performance period. Much of the value delivered across the performance period was achieved as the Group successfully optimised and leveraged its integrated supply chain to provide security of supply during several challenging years for the UK energy system, whilst delivering significant additional value. The pandemic materially negatively impacted the 2020 and 2021 financial year EPS performance. While there was a modest benefit from the UK Government's request to provide winter contingency through coal for part of the 2022 financial year, this was more than offset by the net earnings lost during the period from the combined effect of the sale of CCGT and acquisition of Pinnacle.
- Drax has an important role in the security of supply. Despite significant operational challenges, we maintained the supply of power during the pandemic which required robust supply chains for the supply of sustainable biomass as well as the operational demands at Drax Power Station. More recently following the request from UK Government, we made the coal units available when called upon for operation.
- Subsequent LTIP awards have been granted at higher share prices (429p in 2021 and 701p in 2022) and the 2019 and 2018 awards were granted at share prices of 380p and 255p.
- Vested awards for Executive Directors remain subject to a holding period. With the two-year holding period that applies, the share price could be lower by the time shares are released.

The Committee determined that the vesting outcome was appropriate in the context of performance over the three-year performance period. The Committee also believed the outcome was appropriate in the context of the response by management to the impacts of the pandemic on operational continuity and looking after colleagues. On this basis, the Committee decided not to exercise any discretion to reduce the overall vesting outcome.

All-employee remuneration

In September 2022, Drax completed the acquisition of Princeton Standard Pellet Corporation and thereby welcomed more colleagues in Canada (following the acquisition of Pinnacle in 2021). Careful consideration was given at that time to ensure that Princeton's colleagues smoothly transitioned to the Group's remuneration and broader HR policies.

Drax's TSR over the 2020 LTIP performance period versus other energy companies



In addition, Drax expanded operations into Japan in 2022, with the intention of further advancing biomass sales to support energy security and decarbonisation in Asia.

At this stage our footprint in Japan is modest but our presence there, including the number of colleagues we have, is likely to expand as that business grows. Management is currently considering remuneration and broader HR arrangements which are appropriate and competitive in the local market in Japan.

Inflation increased significantly in 2022 in all countries where Drax operates, leading to a significant cost of living impact on all colleagues. The Committee spent time considering how best to offer support. We took the decision to bring forward the effective date of the 2023 pay review to 1 January (from 1 April) for all colleagues not under collective bargaining (colleagues under collective bargaining already had 1 January as an effective pay review date). We felt that bringing forward the pay review was the most meaningful way to support colleagues during these difficult times. A budget of 8%, which is higher than recent years, was set. This was consistent with inflation rates in the US and Canada at the time the budget was set. This was also broadly in line with the Retail Price Index (RPI) in the UK when adjusting for the direct impact of energy prices.

For the two Executive Directors, the Committee decided on a 4% base pay increase, effective 1 January 2023. The Committee took this decision as they were mindful of the knock-on impact on the relativity of Executive Directors' total pay to the total pay of the wider workforce in awarding the Executive Directors base pay increases that were directly aligned with the average increase of the wider workforce (which is our standard approach). The median base pay increase for members of the Executive Committee was also 4%.

To further support colleagues with the rising cost of living, Drax implemented Nudge globally. This provided all colleagues with access to financial education, such as advice on day-to-day budgeting and how to help money go further. We will continue to monitor the cost of living situation throughout 2023 and consider whether there is anything further we can appropriately do to support our colleagues.

New remuneration policy

Context

The Committee undertook a full review of the current Policy in 2022. This took into account the evolution of the Drax strategy since the last Policy review in 2019, plus evolving market practice and feedback from our shareholders. Consensus from the feedback we received was our current Policy is working effectively and it remains aligned with our strategy.

Proposed changes

The key Policy changes which will be proposed for shareholder consideration at the AGM to be held in April 2023 are:

- **Annual bonus deferral and holding periods** – we are not proposing a change to the quantum of the bonus opportunities for the Executive Directors. While retaining the Scorecard methodology, there will be more flexibility in the choice of performance metrics. We will achieve this by removing the specification that 60% of metrics must be financial, albeit on the proviso that the majority of metrics will be financial (and the Committee note that 60% of the metrics in the 2023 Scorecard are financial). The current approach to deferral of the bonus for Executive Directors will be simplified. A flat 40% of any bonus earned is to be paid in shares and deferred for three years. This is to simplify the current arrangement whereby the deferral operates differently for bonus earned for financial and non-financial targets. In addition, to align with market practice, the holding period on deferred bonus shares is to be removed. The deferred bonus shares will continue to have a three-year vesting period and, on vesting, these shares will still need to be held (as a minimum, on a net of tax basis) until Drax share ownership guidelines have been met.
- **Non-Executive Directors** – consistent with wider market practice in FTSE 350 companies with an international footprint, there will be an introduction of flexibility to provide a limited range of benefits and travel allowances to Non-Executive Directors. These changes are being made in recognition of the additional time and expenses incurred by Non-Executive Directors based overseas in providing their services to a UK based listed company (e.g. the changes will enable the additional time which the Non-Executive Directors concerned commit in travelling to and from UK Board meetings to be reflected in the total fees provided). The Policy will also specify that our default approach is to increase their fees each year at a rate that is up to the rate applied to the wider workforce. This will bring the Drax Policy into line with market practice. With respect to 2023, the Chair received a 4% increase and Non-Executive Directors received an increase of 4.1%, which was less than the average increase of the wider workforce although in line with the annual base pay increases of the two Executive Directors and median base pay increase of the broader Executive Committee members.

BECCS

As explained in other sections of this Annual Report, Drax continues to make good progress with its business transformation strategy. This we believe can be achieved through delivering both UK BECCS and global BECCS, with options including the delivery of 4Mt of negative CO_2 emissions each year from new-build BECCS outside of the UK by 2030, with a primary focus on North America. This includes the development of options for a pellet plant with BECCS, coal-to-biomass-to-BECCS and industrial models for BECCS as a service.

In respect of BECCS in the UK, our stated ambition is to develop 8Mt of BECCS at Drax Power Station by 2030. Management are progressing with the planning phases and during 2023, site preparation works will be undertaken, supporting the target of a final investment decision in 2024. The development of the BECCS opportunity in the UK will require the right investment framework from the UK Government.

Internationally, as outlined in our Trading Update in December 2022, management made progress on the objective to deliver 4Mt of negative CO_2 emissions annually from 2030. Opportunities under consideration include two new-build 300MW BECCS power units, each capable of producing 2TWh of renewable electricity from sustainable biomass and each capturing over 2Mt of CO_2 annually. Drax is also developing options for a pellet plant with BECCS, and the addition of BECCS to existing generation assets, including coal-to-biomass-to-BECCS.

The US was a key focus during 2022. The regulatory environment there continued to gain momentum, with the inclusion of BECCS as an eligible technology under the Department of Energy climate goals funding scheme. At state level, progress has been made through enabling legislation in Louisiana and Texas, with the Louisiana legislature approving a bill that classifies biomass as carbon neutral and BECCS as carbon negative. In addition, California's net zero strategy identifies carbon removal technologies as important to deliver the state's climate targets.

We are evaluating a range of potential financial models for these projects, which could include long-term power purchase agreements (PPAs), long-term CDR sales and government investment frameworks.

In 2022 the Committee gave much consideration to an appropriate mechanism by which management should be remunerated for the delivery of the high impact and high value opportunity of BECCS. The Committee's view is that the long term incentive plan provides a more appropriate mechanism for assessing and rewarding the delivery of BECCS over the medium to long term than the annual bonus plan. Having considered this in the context of the current Policy, the Committee has, after careful reflection, and after taking into account shareholder feedback, concluded that the timing of implementing such a change is more appropriate for 2024. This will allow time for necessary clarity on the outcome of engagement with the UK Government in relation to UK BECCS and further evolution of Drax's global BECCS policy. The Committee expects to be in a position to engage shareholders on this potential change later this year.

Shareholder Engagement

In developing the proposed Policy, we considered comments provided by shareholders on our current Policy and we engaged with our largest shareholders to explain our proposed revisions. In December we wrote to our leading shareholders (which accounted for circa 40% of our shareholder register at that time) to share the proposed revisions and our thinking behind them. In January and February 2023 we had conversations with some of these shareholders to discuss their feedback. We really appreciate the time taken by our shareholders and we found their input both helpful and constructive. The Committee took this feedback into consideration and it helped to inform our proposals, for example the decision to delay reviewing the mechanism through which management are remunerated for the delivery of BECCS.

Application of Remuneration Policy in 2023

Base pay review

The Committee reviewed the base pay of both Executive Directors for 2023 and determined that a below workforce increase of 4% would apply from 1 January 2023. From that date, the base pay of Will Gardiner increased to £663,000 and the base pay of Andy Skelton increased to £421,750. As noted previously, the Committee took this decision while mindful of the knock-on impact on the relativity of Executive Directors' base pay to the base pay of the wider workforce in awarding the Executive Directors base pay increases that were directly aligned with the average increase for the wider workforce (which was 8%).

Pension

As reported in 2019, effective 1 January 2023, the pension contribution rates of the Executive Directors reduced to 10% of base pay (from 20% for Will Gardiner and 16% for Andy Skelton).

Annual bonus

Feedback provided as part of the Policy review indicated that the construct of the current annual bonus plan is working effectively. Bonus awards for 2023 will continue to be based on a Scorecard methodology. The maximum bonus opportunities of the Executive Directors remain unchanged at 175% and 150% of base pay for the CEO and CFO respectively. The majority of the bonus remains subject to challenging financial targets with 40% based on Group Adjusted EBITDA and 20% on Leverage. The remaining 40% will be earned against a range of strategic, safety and ESG targets. The 2023 Scorecard will determine the bonus awards for all colleagues across the Group who participate in the bonus plan for 2023, including the Executive Directors. More information on the targets is on page 156.

Long-Term Incentive Plan

As detailed above, no changes are proposed to the existing LTIP structure. For the TSR element, performance will continue to be assessed against the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with the upper quartile. The targets for the EPS element are provided on page 157.

Workforce engagement

We believe engagement with our colleagues is extremely important in informing decisions of the Committee and in communicating how the Committee reaches decisions. There are several ways we engage with our colleagues on remuneration matters.

One of the key vehicles is the MyVoice Forums. In 2022 there were four meetings with the respective Forum Chairs, Will Gardiner and Philip Cox. At these meetings, a variety of matters were discussed and this feedback has informed HR decisions. For example, we received feedback that we need to improve on recognising the contribution of colleagues beyond our reward programmes. The Chairs are supporting HR to develop options. We are increasingly making use of this workforce engagement platform to seek views on remuneration and to help shape initiatives. For example, the participation of our UK Sharesave scheme is very high with over 50% of UK colleagues participating in at least one scheme. We have partnered with Wealth at Work to deliver a financial education programme in Q1 2023 and engaged our MyVoice Forum Chairs for feedback on how we communicate to ensure the content lands appropriately. This support will enable colleagues to understand their options with respect to the Sharesave contract that matures in June 2023. Each business area also had their own Forum meetings in 2022.

In 2022, I also recorded a video explaining the construct of the 2022 Scorecard and the rationale for each metric. The purpose was to improve the level of understanding of how the Scorecard works, to reinforce the importance of each metric to our strategic aims, and to explain how colleagues can directly influence them. The video was published on the intranet and made available to all colleagues. Feedback from colleagues suggests this was a valuable exercise.

During 2022, colleagues continued to have the opportunity to put questions to Will Gardiner on any topic, with his responses made available to all colleagues. Colleagues could also share their views with management through the all-employee annual engagement survey. Although the engagement score is no longer a metric in the annual bonus plan, we are still committed to assessing the findings and addressing them through targeted actions.

Summary

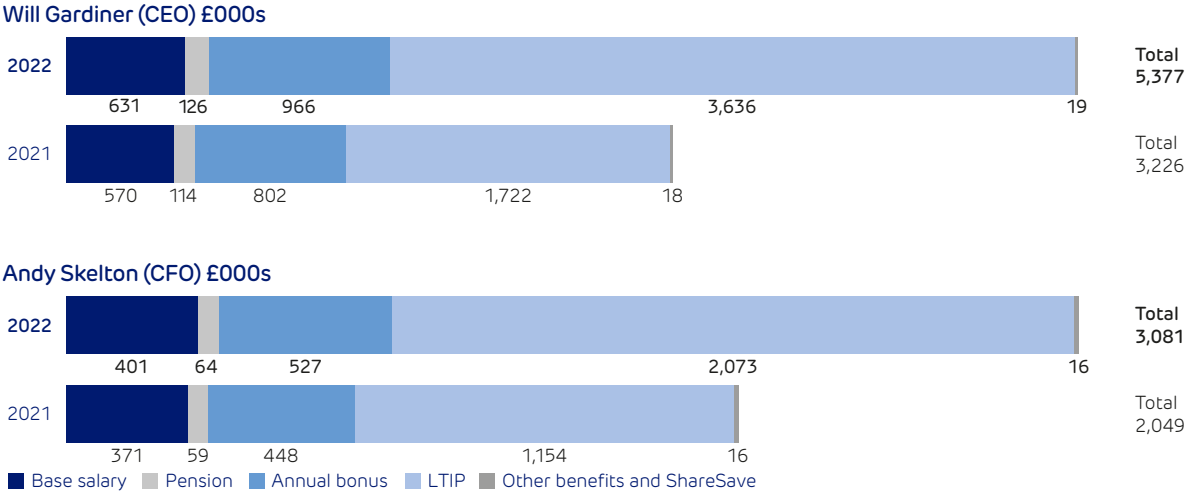
The Committee recognises the excellent performance of the Group in 2022. We believe the 2022 remuneration outcomes for the Executive Directors and senior management fairly reflect performance, provide a fair and consistent approach to remuneration across the Group, and is appropriate to the shareholder experience. We are confident that the proposed Policy underpins our purpose and the delivery of our strategy, and rewards long-term sustainable performance and value creation for shareholders. We hope that having read this report you will vote in support of the resolutions for the Annual Report on Remuneration and the separate proposed Remuneration Policy at the AGM being held on 26 April 2023.

Remuneration Committee report continued

2022 Remuneration at a glance

The charts below provide a summary of the remuneration earned by the Executive Directors in 2022. Figures are rounded up to the nearest £000. Full details can be found in the Annual Report on Remuneration from page 147.

Total remuneration



Implementation of the Policy in 2022

Element	Implementation of the Policy in 2022	Will Gardiner (CEO) 000s	Andy Skelton (CFO) 000s
Base salary	• As stated in the Annual Report for the 2021 financial year, effective 1 January 2022, adjustments were made to the base salaries of the Executive Directors to reflect changes to the business. This decision was made in accordance with the relevant provision in the Policy and was supported by external market data. • The base pay increases in April 2022 were made as part of the annual pay review process which resulted in Executive Directors receiving an increase in base pay of 4.5%, consistent with the average increase of the wider workforce. • For reference, the effective date of the 2023 annual pay review process was brought forward to 1 January. Effective 1 January 2023, the Executive Directors received an increase in base pay of 4%, which is below the average increase of the wider workforce.	£631	£401
Pension and other benefits	• The employer pension contribution rate for Will Gardiner and Andy Skelton in 2022 was 20% and 16% of base salary respectively. From 1 January 2023, their respective pension contribution rates have been reduced to 10% to align with new joiners of the UK wider workforce. • Other benefits received include a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other colleagues, and private medical cover.	£145	£80
Annual bonus	• The 2022 annual bonus outcome as a percentage of maximum opportunity was 87.5%, of which 62.3% was based on performance against financial metrics and 37.7% on performance against strategic metrics. • In line with the Policy, for the Executive Directors, 40% of the overall bonus award will be deferred into shares under the Deferred Share Plan.	£966	£527
Long-term incentive plan (LTIP)	• The 2022 LTIP award is measured on the three-year performance period to 31 December 2024, based on Total Shareholder Return (TSR) relative to the FTSE 350 which has a 50% weighting, and Cumulative Adjusted Earnings Per Share (EPS), which also has a 50% weighting. • The 2020 LTIP will vest in May 2023 at 100% of the maximum and was based on the performance of TSR (50% weighting) and Cumulative Adjusted EPS (50% weighting), over the preceding three-year performance period.	£3,636	£2,073
Shareholding requirements	• Will Gardiner has met the shareholding requirement, with a shareholding at 31 December 2022, equivalent to 881% of base salary. • Andy Skelton has also met the shareholding requirement, with a shareholding at 31 December 2022, equivalent to 487% of base salary.	>250% of base pay	>200% of base pay

Alignment of Remuneration of Executive Directors and Wider Workforce

Many aspects of the remuneration for Executive Directors are also applicable to the wider workforce, such as the basis of the annual bonus award through the scorecard, pension, and benefits entitlements. Below is a summary of the remuneration arrangements broken down by the colleague grouping. In this table as indicated in the key below, specific areas of remuneration which are not highlighted represent remuneration which is fully aligned across all colleagues, whilst those highlighted in blue are not aligned.

Key

◯ Aligned across workforce ◯ Unique to a specific colleague group

Remuneration element		Executive Directors[1]	Executive Leadership and Senior Management[2]	Wider workforce[3]
Base salary	**Approach**	To target the appropriate market rate, as determined by comparisons with appropriate companies.		
	Increases	Keep pay for colleagues consistent with market rate and reviewed in line with inflation; base salary increases for Executive Directors will generally be in line with those for the UK workforce.		
Pension	**New hires**	All UK colleagues have the option to participate in the Company's defined contribution pension plan, with company contribution rate for new hires of up to 10% of base salary. Some colleagues choose to take a cash payment in lieu of their pension, or a combination of pension contribution and cash in lieu of a contribution. From 1 January 2023, the contribution rates for the CEO and CFO were reduced from 20% and 16% respectively to 10%, to align with the rate for new joiners to the UK workforce.		
Benefits[4]	**Health and wellbeing**	All colleagues receive medical cover, and access to an annual private health assessment or a local equivalent arrangement.		
	Risk and protection	All colleagues have company-funded life assurance and income protection, or a local equivalent arrangement, unless they are covered under alternative collective bargaining arrangements.		
	Car benefit	£12,000	Not applicable. Some colleagues have a car as job requirement	Not applicable. Some colleagues have a car as job requirement
Bonus	**Eligibility**	All colleagues are eligible to take part in the annual bonus programme, unless precluded by alternative arrangements with their respective trade union group. The bonus award is designed to reward the delivery of targets and objectives directly linked to the financial and strategic performance of the Group set each year and detailed in a scorecard.		
	Metrics	Bonus awards are conditional on achieving thresholds set in the scorecard, which combines financial and strategic metrics. These metrics are the same for all colleagues, so there is Group-wide consistency.		
	Deferral	40% of the total bonus outcome will be deferred into shares in the form of nil cost options or conditional awards under a Deferred Share Plan (DSP). The period over which shares are deferred is normally three years. Vesting is subject to continued service or "good leaver" termination provisions.	Not applicable, no deferral	Not applicable, no deferral
Long-term incentive plan (LTIP)	**Eligibility**	Discretionary annual grant of shares, under the LTIP.	Discretionary annual grant of shares, under the LTIP.	One Drax Awards are a discretionary grant of share awards to recognise performance and to aid retention of key talent below Executive Leadership and Senior Management level.
	Metrics	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	No performance conditions for One Drax Awards.
	Shareholding requirement	Requirements of 250% and 200% of salary for the CEO and CFO respectively. A post-cessation shareholding requirement, equal to the employment sharing requirement, applies for a two-year period after cessation.	Not applicable	Not applicable
All-colleague plans (Sharesave)		All UK colleagues have the option to buy shares in Drax at a discounted price (after a three-year or five-year saving period elapses). For colleagues outside the UK, management will continue to monitor whether there is sufficient local interest to participate in an equivalent scheme.		

Notes:
(1) The Executive Directors are the CEO and CFO.
(2) Executive Leadership and Senior Management includes all colleagues in the three most senior job grades, excluding the CEO and CFO.
(3) Wider workforce includes all colleagues in job grades below the three most senior job grades.
(4) Drax opened an office in Japan in 2022. We are reviewing our benefits there and will introduce local competitive arrangements in 2023.

Remuneration Committee report continued

Corporate Governance Code

The Directors' Remuneration Policy has been subject to a full review by the Committee which was undertaken in 2022. Proposed changes will be put to shareholders for approval at the AGM being held on 26 April 2023.

When reviewing the Remuneration Policy, the Committee considered a number of factors, including but not limited to, Drax's ambitious growth strategy, shareholder feedback on the current policy, the UK Corporate Governance Code (see below) and wider best practice. This has culminated in the formulation of a revised remuneration policy (the Policy) which will apply for three years from the date of the 2023 AGM, subject to shareholder approval.

The table below sets out how the Policy specifically addresses the provisions of the UK Corporate Governance Code.

Our remuneration policy is aligned with the provisions of the 2018 Corporate Governance Code

Clarity

- Alignment between the delivery of strategic goals and remuneration outcomes.
- Remuneration which rewards growth in shareholder value over the medium to longer-term.
- Performance related elements, relevant for the Group as a whole, creating alignment across the wider workforce in delivering financial, operational and strategic imperatives.

Simplicity

- Annual bonus: a simple Scorecard structure focusing on a small number of financial, strategic and ESG metrics, which provides clarity, focus and ease of understanding.
- The vesting of the long-term incentive plan (LTIP) is conditional in part on cumulative adjusted EPS, which reflects the capability to deliver stable earnings, and TSR, which ensures strong alignment with the shareholder experience.

Risk

- A significant proportion of remuneration is linked to the longer-term performance of the Group.
- A significant shareholding requirement for Executive Directors during and post-employment.
- Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances.

Predictability

- Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Policy.

Proportionality

- Performance measures are linked to Drax's strategy and aligned with long-term creation of value for shareholders.
- Stretching targets ensure that payments are only made for strong corporate performance.
- The Committee has discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance, the interests of stakeholders and shareholder experience.

Alignment to culture

- Annual bonus metrics for all employees, including Executive Directors, are the same so that all participating colleagues are focused collectively on, and rewarded for, the delivery of financial and strategic goals and Drax's purpose.
- The annual bonus for 2023 (and in previous years) contains metrics related to the environment, sustainability and people which underpin Drax's values and business strategy.

Summary of changes to the Policy

The table provide provides an overview of the proposed changes to the Policy and the associated rationale for these changes.

Element	Proposed Change	Rationale
Salary	• Adopt consistent wording for the ability to move base salaries to the market rate where Executive Directors are either (i) an external appointment made on a below market base salary; or (ii) an internal promotion on a below market base salary.	• The change aligns Drax with standard FTSE 350 market practice. The default base salary increase for Executive Directors remains an increase up to the rate typically applied to the workforce. Where the quantum increase exceeds the norm, an explanation will be provided by the Committee.
Annual bonus	• The following changes are proposed: 1. Simplifying the wording on the choice of performance metrics. The majority of the annual bonus must still be earned based on performance against financial targets as opposed to the current approach that defined a set percentage of the bonus (60%) as being subject to financial targets. 2. Simplification of current approach to that part of annual bonus which is deferred in shares. The change will specify that 40% of any annual bonus earned is deferred into Drax's shares. This approach replaces the prevailing more complex approach whereby 100% of any bonus earned against strategic targets takes place subject to 40% of the total bonus outcome being deferred. 3. Removal of the two-year holding period on deferred bonus shares so that any deferred shares that vest will be released at the end of the three-year vesting period. These shares will need to continue to be held (as a minimum on a net of tax basis) until Drax's share ownership guidelines have been met.	• The changes to the operation of the annual bonus plan align Drax with standard FTSE 350 market practice. • Requiring at least half the bonus to be subject to financial targets provides greater flexibility for the Remuneration Committee in operating the annual bonus plan and mirrors standard market practice. • The current approach to bonus deferral was overly complex with differing proportions of the parts of the bonus subject to financial and strategic targets taking place dependent upon the level of bonus earned against each measure. This was administratively complex with the change simplifying the deferral process. • Deferring a proportion of any bonus into shares which vest at a future date is standard practice. Holding periods are not typically applied to deferred share bonus awards at the point of release. To note, the holding period will continue to apply to shares vesting under the long-term incentive plan. The change brings Drax into line with standard FTSE 350 market practice.
Pension	• The policy is being updated to reference that Executive Director pensions are now aligned with the rate typically provided to the UK wider workforce for new joiners at 10% of base salary.	• The change conforms the policy with institutional investors best practice expectations with Executive Director pensions being reduced to the rate typically provided to the UK wider workforce of 10% from their prior rates of 20% (CEO) and 16% (CFO) of base salary.
LTIP	• The overall LTIP structure remains the same.	• N/A
Non-Executive Directors	• The changes to the current Policy provide flexibility for Drax to provide a limited range of benefits and travel allowances. • The Policy will also specify that the default is to increase Non-Executive Director base fees at a rate that is up to the rate typically applied to the UK wider workforce.	• The changes to the Non-Executive Directors' Policy mirror standard practice for FTSE 350 companies with an international footprint. • The ability to provide a limited range of benefits and allowances will ensure that Drax has the flexibility to appoint international Non-Executive Directors of an appropriate calibre to support Drax through the next phase of its development. The change will enable Drax to provide support to Non-Executive Directors (specifically from outside the UK) in relation to initial set up and ongoing support with filing tax returns such that this is cost neutral to the individual. • Introducing the ability to increase Non-Executive Director fees up to the rate of increase awarded to the wider workforce bring the Company Policy into line with standard market practice.

Directors' Remuneration Policy for approval at the 2023 AGM

Below is the proposed Policy which, if approved by shareholders, will be effective immediately after the AGM on 26 April 2023 and will be binding until the close of the 2026 AGM.

Base salary

Base salary helps to attract, reward and retain the right calibre of Executive Director to deliver the leadership and management needed to execute the Group's strategy and business plan.

Proposed Change (for adoption in 2023)
Adopt consistent wording for the ability to move base salaries to the market rate where Executive Directors are either (i) an external appointment made on a below market base salary; or (ii) an internal promotion on a below market base salary.

Practical operation
Base salary reflects the role, the executive's skills and experience, and market level. To determine the market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators. The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account factors such as, but not limited to, sector, size, and international presence.

Where base salary on appointment is below market level to reflect experience, it will be increased over time to align with the market level, subject to performance.

Base salaries of all Executive Directors are generally reviewed once each year, with increases applying from January. Reviews cover individual performance, experience, development in the role, market comparisons and pay reviews for the wider workforce.

Maximum potential value
The base salaries of Executive Directors in post at the start of the policy period, and who remain in the same role throughout the policy period, are eligible for increases during the policy period but will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group at the time of increase.

Exceptions to this, subject to performance and development, are where:

(i) An Executive Director has been appointed at below market level to reflect experience.

(ii) An Executive Director has been promoted internally (or the scope or nature of their role has changed) and their salary is below market level.

Pension

Pension provision is one of the components to attract, reward and retain the right calibre of executive, to ensure delivery of the leadership and management needed to execute the Group's purpose and strategy.

Proposed Change (for adoption in 2023)
The policy is updated to reference that Executive Director pensions are now aligned with the rate typically provided to the UK wider workforce for new joiners of up to 10% of base salary.

Practical operation
Executive Directors are entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension (subject to normal statutory deductions), or a combination of pension contributions and cash in lieu of pension.

Maximum potential value
The contribution rates for existing Executive Directors are limited to the rate for new joiners to the UK wider workforce, which is currently 10% of base salary. This is also the most common pension contribution rate for UK-based employees.

The pension contribution rate for any new Executive Director will also be limited to the rate for new joiners to the wider workforce.

Benefits

Benefits are provided to be market competitive as an integral part of Executive Directors' total remuneration.

Practical operation

Executive Directors receive a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover. Additional benefits may be provided if the Committee considers them appropriate (including tax equalisation expenses and benefits or allowances which are customarily provided in the country where an Executive Director resides).

Relocation expenses are paid, where appropriate, in individual cases. Executive Directors' relocation expenses are determined on a case-by-case basis. The Policy is designed to assist the Executive Director to relocate to a home of similar standing.

Maximum potential value

Benefits are set at a level appropriate to the individual's role and circumstances.

The maximum opportunity will depend on the type of benefit and cost of its provision, which will vary according to the market and individual circumstances.

Annual bonus

The award of annual bonus will be based on annual performance against financial and operational metrics linked to the business plan. The aim of the deferred portion of the annual bonus is to further align Executive Directors to shareholders' interests, by linking share-based reward to long-term sustainable performance.

Proposed Change (for adoption in 2023)

(i) Simplification of the wording on the choice of performance metrics. The majority of the annual bonus must still be earned based on performance against financial targets.

(ii) Simplification of current approach to that part of annual bonus which is deferred in shares. The change will specify that 40% of any annual bonus earned is deferred into Drax's shares. This approach replaces the prevailing more complex approach whereby 100% of any bonus earned against strategic targets takes place subject to 40% of the total bonus outcome being deferred.

(ii) Removal of the two-year holding period on deferred bonus shares so that any deferred shares awarded vest after three years. These shares will need to continue to be held (as a minimum on a net of tax basis) until Drax's share ownership guidelines are met.

Practical operation

The Committee will determine the annual bonus payable after the year-end, based on performance against targets.

40% of the total bonus outcome will be deferred into shares in the form of nil cost options or conditional awards under a Deferred Share Plan (DSP). The period over which shares are deferred is normally three years. Vesting is subject to continued service or "good leaver" termination provisions.

Deferred shares vest based on continued employment and lapse other than in defined good leaver circumstances.

Dividends or dividend equivalents (which may assume notional reinvestment) are paid on DSP awards.

In certain circumstances, the Committee can apply malus and clawback to bonus awards.

Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	175%
Other Executive Directors	150%

Performance measures

The majority of the annual bonus will be based on financial metrics. The Remuneration Committee reviews and determines the metrics, weightings and calibration of targets annually taking into account business objectives and the strategic priorities of the business.

The performance metrics applicable to the annual bonus awards are split between financial and strategic metrics.

- Financial – performance measures based on annual financial and operational targets, which will be linked directly to the performance of the Group and determined by the Board.
- Strategic – performance measures based on non-financial and strategic targets, which will be determined annually by the Board and will be aligned with the business strategy.

There is no payment for below threshold performance.
The outcome for threshold performance is 0% of maximum.
The outcome for target performance is 50% of maximum.

Targets, outcomes and resulting payouts are published in the Annual Report on Remuneration.

The Committee will review the formulaic outcome of the bonus award and has the discretion to amend the final outcome to make sure that bonus payments reflect overall performance. The use of such discretion will be explained fully in the relevant Annual Report on Remuneration.

In exceptional circumstances such that the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the year.

Long Term Incentive Plan (LTIP)

The Group's LTIP provides long-term alignment with shareholders based on the outcome of performance against the conditions set for each award (which for awards granted in 2023 will be Relative Total Shareholder Return and Cumulative Adjusted Earnings Per Share).

Practical operation

Under the LTIP, Executive Directors may at the discretion of the Committee receive an annual grant of shares subject to performance conditions.

Shares vest on the third anniversary of the grant, subject to continued service or in exceptional circumstances earlier subject to specified "good leaver" termination provisions, and the achievement of performance conditions over a three-year period determined by the Committee. Vested awards are then subject to a further holding period of two years for Executive Directors.

Dividends or dividend equivalents (which may assume notional reinvestment) may be paid on LTIP awards.

There is no payment for below threshold performance.

The outcome for threshold performance is 25% of maximum.

The Committee will include an override provision in each grant under the LTIP. This will give the Committee discretion to determine that no vesting shall occur, or that vesting shall be reduced, if there are circumstances (relating to the Group's overall performance or otherwise) which make vesting when calculated by reference to the performance conditions alone inappropriate.

In certain circumstances, the Committee can apply malus or clawback to unvested/vested awards.

The Committee reserves discretion to:

(i) amend the performance conditions/targets attached to outstanding awards granted under this Policy, in the event of a major corporate event or significant change in economic circumstances, or a change in accounting standards having a material impact on outcomes; and

(ii) adjust the vesting of LTIP awards and/or the number of shares underlying unvested LTIP awards, on the occurrence of a corporate event or other reorganisation. In the event of a change of control, the treatment of long-term incentives will be determined in accordance with the plan rules.

Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	200.0%
Other Executive Directors	175.0%

In exceptional circumstances the Committee may on recruitment grant a percentage of base salary in excess of these amounts.

Performance measures

Awards will be subject to a combination of long-term measures which are aligned to the shareholder experience and may include financial metrics, shareholder value metrics, capital efficiency measures and ESG or strategic measures.

Shareholding requirement

The shareholding requirement aligns the interests of Executive Directors with shareholders.

Practical operation

The shareholding requirement for the CEO is 250% of salary and for the other Executive Directors is 200% of salary. This is to be achieved within a period five years after the date of the 2020 AGM (or after the date of appointment for new Executive Directors if this is later) from vested shares derived from awards under the Company's share plans.

Until this level is reached, Executive Directors who receive shares by virtue of any share plan award or who receive DSP awards are expected to retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Shares which have not vested and are subject to performance conditions will not count towards the requirement. Unvested awards subject to service only (e.g. DSP awards) will count towards the guideline on a net of tax basis.

Maximum potential value

N/A

Performance measures

N/A

Post cessation shareholding requirement

The Group's post-cessation shareholding requirement aligns the interests of Executive Directors with shareholders over the longer term beyond their departure from the Group.

Practical operation

A post-cessation shareholding requirement, equal to the employment shareholding requirement (or the shareholding on departure if lower) applies for a two year period after cessation of employment. For clarity, the post cessation shareholding requirement is 250% of salary for the CEO and for the other Executive Directors is 200% of salary. In addition, shares vesting during this period will remain subject to the two-year post-vesting holding period, which may therefore extend beyond the two year period for which the post-cessation shareholding requirement applies.

Shares purchased by the Executive Director (including those from all employee share plans), will not be included.

Shares counting towards this requirement will not be released from the Employee Benefit Trust during the period in which the post-cessation shareholding requirement applies, to support enforceability. Acceptance of the post-cessation shareholding requirement will be a condition of participation in all share awards granted, and will be included in the grant documentation for awards.

Both Will Gardiner and Andy Skelton have entered into such an agreement.

Maximum potential value

N/A

Performance measures

N/A

Performance measures and approach to setting targets

The measures for elements of variable pay will be:

- In respect of the annual bonus plan, financial, strategic and operational measures consisting of targets set by the Committee each year in conjunction with the Board. The targets are aligned with key business goals determined at the start of each year
- In respect of shares awards granted under the LTIP, targets typically relate to a combination of:
  - Relative TSR, which aligns Executive Director remuneration with creation of long-term shareholder value;
  - Cumulative Adjusted EPS, which aligns Executive Director remuneration with the realisation of our earnings growth plans, which is a major determinant of shareholder value.
- The Committee sets targets for the performance measures each year, taking into account market conditions, the business plan and other circumstances as appropriate. A summary of the measures that apply for the following year are disclosed in the Annual Report on Remuneration.
- The Committee retains flexibility during the Policy period to change the weighting and choice of performance metrics to better align with strategy as it evolves.

Circumstances in which malus or clawback may apply

The Committee may, at any time within two years of the LTIP and DSP vesting or annual bonus payment, determine that malus and/or clawback provisions should be applied, in circumstances of:

- material financial misstatement;
- fraud or misconduct;
- material failure of risk management and corporate failure;
- if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information; and,
- in other circumstances that the Committee considers justifying the operation of the clawback provision.

Committee's judgement and discretion

In addition to assessing and making judgements on the meeting of performance targets and the appropriate incentives payable, the Committee has certain operational discretions it can exercise in relation to Executive Directors' remuneration. These include, but are not limited to the following and in all cases any use of discretion will align with the discretions afforded to the Committee in the relevant plan rules:

- reviewing the formulaic outcome of the annual bonus, DSP and LTIP awards and applying discretion to amend the final outcomes, to ensure that the outcomes reflect overall performance or an individual executive's performance;
- deciding whether to apply malus or clawback to an award;
- determining whether a leaver is a "good leaver"; and
- determining the treatment of awards in the event of a change of control.

Where such discretion is exercised, it will be explained in the relevant Annual Report on Remuneration.

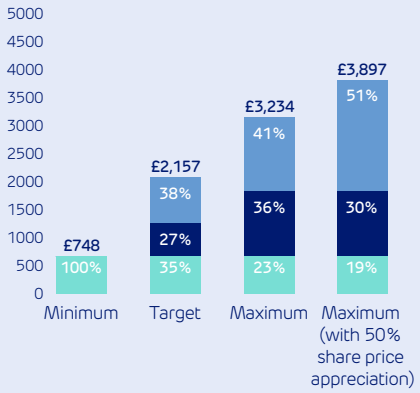
Remuneration Committee report continued

Remuneration scenarios

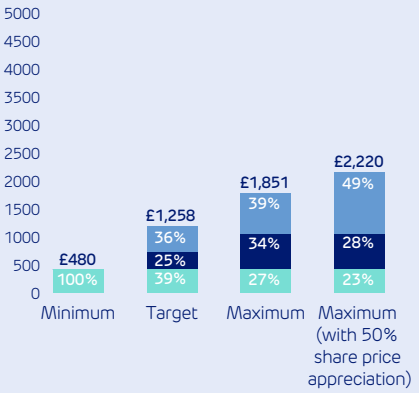
The composition and value of the Executive Directors' remuneration packages at below threshold (minimum), target and maximum performance scenarios under the Drax Group Policy are set out in the charts below based on salary on projected earnings for 2023 based on current salary. The assumptions used in the charts are provided in the following table:

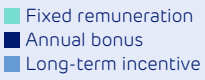
Description	Fixed remuneration	Annual bonus	Long-term incentive
Minimum	Base salary is the rate payable as determined by the Committee following the annual review. Benefits and pension entitlement remain as disclosed in the Policy.	None	None
Target		50% of the maximum opportunity.	62.5% vesting (midpoint between threshold and maximum).
Maximum		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with no allowance for share price appreciation or dividend equivalents.
Maximum (with 50% share price appreciation)		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with allowance for 50% share price appreciation over the three-year performance period and no allowance for dividend equivalents.

Will Gardiner (CEO)
£000s



Andy Skelton (CFO)
£000s





Approach to recruitment remuneration

The Committee will apply the components of this Policy to determine the remuneration of newly appointed Executive Directors. Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance.

A new Executive Director would be eligible to receive an annual bonus of up to 150% of salary, or 175% for a new CEO, in each case with financial and strategic elements as set out in the Policy table above. In addition, a new Executive Director would be eligible to receive an LTIP award of up to 175% of salary, or 200% in the case of a new CEO, (in exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts but in such circumstances it would be capped at 300% of salary).

The Committee may also determine it appropriate to honour prevailing contract commitments for an individual in the event they are promoted to an Executive Director position.

In relation to Executive Directors appointed from outside the Group, where the Committee considers it to be necessary to secure the appointment of the Executive Director, the Committee may:

- pay compensation for loss of benefits on resignation from a previous employer, or grant 'buyout awards' to replace awards or amounts forfeited by a previous employer (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the Group's right to clawback any amount which is subsequently paid to the Executive Director by the former employer, and to claw back an appropriate proportion of the payment if the Executive Director leaves soon after appointment). Any compensation or buyout award made will not exceed the value of the benefits, awards or amounts lost as determined by the Committee acting fairly and reasonably. Any buyout award would have equivalent terms (including vesting dates, performance conditions and malus/clawback provisions) to the original award it replaces. Where possible, the Committee will use existing share-based plans to grant such awards. However, in the event that these are not appropriate, the Committee retains the discretion to use the exception in Listing Rule 9.4.2 for the purpose of making an award to compensate the individual for amounts forfeited upon leaving a previous employer;
- agree a rate for employer pensions contributions, or salary supplements in lieu of pension contribution, which reflects the contribution rate for the wider workforce at the date of appointment;
- make appropriate payments in circumstances where an Executive Director is relocated from outside the UK; and,
- approve the inclusion in the Executive Director's service contract of any terms required by mandatory law in the jurisdiction where the Executive Director is resident.

Service agreements and termination

Executive Directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' notice. They are available for inspection at the Group's registered office.

Element	Details
Notice periods	Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period. Under each of the Executive Directors' service agreements, the Group has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the Executive Director during the contractual notice period. For the avoidance of any doubt this excludes any performance bonus (or cash equivalent) for the relevant period of unworked notice.
Compensation for loss of office	If an Executive Director's employment is brought to an end by either party, and if the Committee considers that it is necessary to pay the Executive Director a termination payment, the Committee's policy, in the absence of a breach of the service agreement by the Executive Director, is to determine an Executive Director's termination payment in accordance with his/her service agreement. The termination payment will be calculated based on the value of base salary and contractual benefits that would have accrued to the Executive Director during the contractual notice period. The Committee will seek mitigation to reduce the amount of any termination payment to a leaving Executive Director when appropriate to do so, having regard to the circumstances and the law governing the agreement. It may, for example, be appropriate to consider mitigation if the Executive Director has secured another job at a similar level. Mitigation would not apply retrospectively to a contractual payment in lieu of notice. In addition, the Executive Director may be entitled to a payment in respect of his/her statutory rights (including, where necessary to comply with the mandatory laws of the jurisdiction in which the Executive Director is resident, a remuneration payment or payment for loss of office in excess of the Executive Director's pre-established contractual terms). The Group may pay reasonable fees for a departing Executive Director to obtain independent legal advice in relation to their termination arrangements and appropriate consideration for agreement to any contractual terms protecting the Group's rights following termination. Moreover, reasonable fees in respect of outplacement support, insurance for a period following termination of office and repatriation assistance, which may include relocation back and tax advisory support. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.

Element	Details
Treatment of annual bonus on termination	All bonus payments are discretionary. The Committee will consider whether a departing Executive Director should receive a cash bonus and deferred share award in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed to the date on which the Executive Director ceases active service. The Committee will take into account performance; the reason for termination; cooperation with succession; any breach of goodwill; adherence to contractual obligations/restrictions; and any other factors which they believe should be taken into account. The service contract for Will Gardiner as CEO, does not entitle him to any payment of bonus on termination of employment. If the employment ends in any of the following circumstances, the Executive Director will be treated as a "good leaver" and the Executive Director will be eligible for an annual bonus: • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Group; and, • death. If the termination is for any other reason, an award will be at the Committee's discretion and it is the Committee's policy to ensure that any such award properly reflects the departing Executive Director's performance and behaviour towards the Group. Therefore the amount of any such award will be determined, taking into account (i) the Executive Director's personal performance and behaviour towards the Group and (ii) the Group's performance. If an award is made, it will normally be paid/granted as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. Any bonus award will be paid in such proportions of cash and shares, and subject to such deferral arrangements as the Committee may determine. There may be circumstances in which the Committee considers it appropriate for the award to be made earlier, for example, on termination due to ill-health, in which case, on-target performance shall be assumed.

Element	Details
Treatment of unvested long-term incentive and deferred share awards on termination	The Committee will consider the extent to which deferred and conditional share awards held by the Executive Director under the DSP and LTIP should lapse or vest. Any determination by the Committee will be in accordance with the rules of the relevant plan. In summary, the rules of the LTIP provide that awards will vest (pro-rated to the date of employment termination) if employment ends for any of the following reasons ("long-term good leaver reasons"): • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Company; • death; and, • change of control. If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so, it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards; and other relevant factors, including the proximity of the award to its maturity date. Awards which vest subject to satisfaction of performance conditions, will be time pro-rated, and will ordinarily vest on the normal vesting date subject to the post-vesting shareholding period. The rules of the DSP provide that deferred bonus awards will vest (in full) if employment ends for any of the good leaver reasons detailed above. If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards, and a range of other relevant factors, including the proximity of the award to its maturity date. The rules of the DSP and LTIP also provide that in circumstances where awards vest, they do so at the normal vesting date, unless the Committee exercises discretion to vest awards earlier. Vested LTIP awards will remain subject to any post-vesting holding period unless the Committee exercises its discretion to allow for earlier release.
Outside appointments	Executive Directors may accept external Board appointments, subject to the Chair's approval. Normally only one appointment to a listed company would be approved. Fees may be retained by the Executive Director.

Consideration of circumstances for leavers

The Committee will consider whether the overall value of any benefits accruing to a leaving Executive Director is fair and appropriate, taking account of all relevant circumstances. Examples of circumstances in which the Committee may be minded to award a cash bonus, DSP award and/or permit the vesting of LTIP and/or DSP awards include:

- the Executive Director's continued good performance up to and following the giving of notice; and,
- the Executive Director accommodating the Company in the timing of his/her departure and handover arrangements.

Conversely, the Committee may be minded not to allow such payments if the reason for the departure is (for example) due to poor performance or if the Executive Director does not continue to perform appropriately following notice.

Remuneration of Non-Executive Directors and Chair

Remuneration component and link to strategy	Practical operation	Maximum potential value
Fees To attract a Chair and independent Non-Executive Directors who, together with the Executive Directors, form a Board with a broad range of skills and experience.	The Chair's remuneration is determined by the Committee whilst that of the other Non-Executive Directors is determined by the Chair and the Executive Directors. These are determined in the light of: • fees of the Chair and Non-Executive Directors of other listed companies selected for comparator purposes, on the same basis as for Executive Directors; • the responsibilities and time commitment; and, • the need to attract and retain individuals with the necessary skills and experience. Non-Executive Directors' fees may be paid in GBP or the currency of the location of the individual Non-Executive. Fees are reviewed annually and will typically be increased by up to the rate of increase awarded to the wider workforce. Non-Executive Directors receive an annual base fee. Additional annual fees are paid to the Senior Independent Director and Chair of any Board Committees. Non-Executive Directors are not entitled to participate in any pension or performance related remuneration arrangements.	Overall aggregate fees paid to all Non-Executive Directors will remain within the limit as stated in the Company's Articles (currently £1,000,000).
Benefits: Reimbursed role-based expenses incurred during performance of the duties of the role.	The Company will reimburse any reasonable travel and other business related expenses incurred (e.g. support with the completion of tax returns for international Non-Executive Directors) and the related tax thereon, if applicable.	
Travel allowance To recognise the additional time commitment associated with travel on Company business.	Set by reference to anticipated travel times and allowances provided by FTSE 350 companies in similar circumstances. A travel allowance may be structured as appropriate from time to time, taking into account market practice, the location of the Non-Executive Director and travel commitments, including but not limited to an annual allowance, an allowance per meeting and different allowances payable for Non-Executive Directors based in different countries or continents. Where travel allowances are paid, these will be disclosed.	

The Chair's notice period is six months whilst the other Non-Executive Directors have a notice period of one month. Further information on the service agreements of the Non-Executive Directors can be found on page 152 of the Annual Report and Accounts.

Remuneration arrangements elsewhere in the Group

Wider employee population

In determining Executive Director remuneration, the Committee also takes into account the level of general pay increases within the Group. Employees are not directly consulted on the Policy, but there are a number of existing channels designed to capture the views of the workforce on remuneration, including the MyVoice forums.

The Committee's policy is that annual salary increases for Executive Directors should not exceed the average annual salary increase for the wider employee population unless there is a particular reason for a higher increase, such as a change in the nature or scope of responsibilities or if an Executive Director has been appointed at a salary below market level reflecting experience in the role.

The Committee also considers external market benchmarking to inform executive remuneration decisions. External market benchmarking is also considered in relation to remuneration decisions of the wider workforce.

Environmental, social and governance issues

The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of Executive Directors. Specific measures can be included in the strategic element of the annual bonus. The Committee is also able to consider these issues in determining whether to exercise its discretion to adjust formulaic outcomes of the annual bonus and LTIP.

Annual Report on Remuneration

The relevant sections of this Report have been audited as required by the Regulations and, in accordance with the Regulations, this part of the Report will be subject to an advisory vote by shareholders at the AGM to be held on 26 April 2023.

Single total figure of remuneration – Executive Directors (audited information)

The table below sets out the single figure of remuneration and the breakdown for each Executive Director for the financial year to 31 December 2022, together with comparative earnings for 2021. Figures are rounded up to the nearest £000.

Director	Year	Salary (£000)	Benefits[1] (£000)	Bonus[2] (£000)	Long-Term Incentives[3] (£000)	Pension (£000)	Other[4] (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2022	631	19	966	3,636	126	0	5,377	775	4,602
	2021	570	18	802	1,722	114	0	3,226	702	2,524
Andy Skelton	2022	401	16	527	2,073	64	0	3,081	481	2,600
	2021	371	16	448	1,154	59	0	2,049	446	1,602

Notes:
(1) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.
(2) Bonus is the value of the award from the 2021 and 2022 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continuous service. For 2021, 40% of the overall bonus was deferred and for 2022, 40% of the overall bonus will be deferred too.
(3) The 2022 numbers represent the value of the 2020 LTIP award which should vest in May 2023, together with the dividend equivalent shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2022, which was £5.798. The value of the award attributable to share price appreciation for Will Gardiner is £2.38m and for Andy Skelton is £1.36m. This is based on the growth in the value of the shares due to vest (including dividend equivalent shares) from the grant share price to the average share price over the last quarter of 2022 (£5.798). The 2021 number (for the 2019 PSP award) are restated to reflect the actual share price on vesting of £7.706 on 28 March 2022.
(4) Other includes the value of Sharesave awards granted. Note no Sharesave awards were made in 2021 or 2022 as both Will Gardiner and Andy Skelton had maximum contributions under contract.

Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2022 Group Scorecard is set out in the following table:

		Plan Targets			Scoring		
Key Performance Indicator	Weighting	Threshold	Target	Stretch	Outturn	Score (out of 2)	Weighted Score (out of 2)
Financial							
Group Adjusted EBITDA (£m)	40.0%	513	570	627	731	2.00	1.14
Leverage (£m)	20.0%	(1,145)	(1,041)	(937)	(968)	1.69	
Strategic							
UK BECCS	10.0%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.54	0.69
North America BECCS	5.0%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Cruachan Expansion	5.0%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.66	
ESG Dashboards	6.7%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.75	
Blueprint for Ultra-low Carbon Pellet Mill	6.7%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Inclusion Index	6.7%	71%	77%	83%	80%	1.50	
	100%				2022 Bonus Outturn:		1.83

Overall bonus outcome adjusted for Safety (with -0.08 downward modifier applied):	1.75 (87.50% of maximum)
Proportion of total bonus award earned for Financial KPIs (pre-Safety modifier):	62.30% (1.14/1.83)
Proportion of total bonus award earned for Strategic KPIs (pre-Safety modifier):	37.70% (0.69/1.83)

Remuneration Committee report continued

The targets were aligned with the Group strategy and 2022 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance. No adjustment to the performance targets was made. Outlined below is a brief synopsis of the Key Performance Indicators (KPIs) used and their strategic rationale.

- Group Adjusted EBITDA – was our principal financial metric, combining the underlying performance of each business to give a Group outcome. Group Adjusted EBITDA for 2022 was £731 million relative to a stretch target of £627 million (score of 2.00). The outturn of this metric was part of the Group's independent financial audit.
- Leverage (Average Net Debt) – a progressive and sustainable structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year. Average net debt was (£968) million which fell between the budget target and stretch target (score of 1.69). The outturn was adjusted for collateral payments made to counterparties to ensure consistency with the target.
- Progress on Strategic Projects – progress on key projects is of critical importance for Drax in progressing the Group's strategy. There were three projects which were included in this metric. The first project was progress on advancing options for our UK BECCS strategy. Significant progress was made in 2022 against the objectives set, across all critical path activities of our UK BECCS strategy (score of 1.54). The second project was on progress of advancing our options for BECCS in North America. As noted throughout this Annual Report, our ambitions for the deployment of new build BECCS across sites in North America are now a key part of Drax's long-term strategic aims (score of 2.00). Further information on the progress of our aims for UK BECCS and BECCS in North America is detailed on page 16. The third project was on progress on advancing the expansion of the Cruachan pumped storage power station. Significant progress was made on this project as well in 2022, as evidenced by the submission of the S36 application to the Scottish Government and subsequent signing of a Grid Connection offer with National Grid ESO. In addition, significant progress was made across other critical path activities (score of 1.66). The choice of projects, and assessment of performance of them in 2022 was subject to the Committee's scrutiny and approval.
- People, carbon reduction, and sustainability practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. In 2022 the assessment of our carbon reduction aims was focused on the development of a blueprint for an ultra-low carbon and particulate emissions pellet mill by the end of the year with learnings from this ready to deploy for future projects (score of 2.00). This was combined with an independent rating of how included our colleagues feel across the Group, which directly links bonus outcomes to positive cultural change and influencing behaviours which can benefit our people and engender better organisational attitudes and initiates. The rating is derived through an all-employee survey administered by a leading and globally recognised management consultancy. Drax's score for 2022 was 2% above the energy and utilities sector norm score (score of 1.50). In 2022 the assessment of our sustainable business practice was focused on the development of and implementation of ESG dashboards across the Group. The intention of these dashboards was to provide visibility of data on key metrics to the management teams at site and pellet mill level. These dashboards have now been implemented and insights from them have already started to influence important decision making (score of 1.75).

The Committee completed an in-depth review of the score for each of the performance measures, to ensure that the result was appropriate individually and in aggregate. The Committee believes that the outcome reflected the strong financial and strategic performance of the Group, as well as wider employee and shareholder experiences. Discretion was exercised by the Committee to reduce the formulaic outturn of the bonus to reflect safety performance in 2022 as described on page 128. The Committee approved the Group Scorecard result for 2022 at a meeting held on 21 February 2023, subject to the final approval of the financial results and Annual Report and Accounts by the Directors on 22 February 2023.

Bonus earned for 2022 (audited information)

The table below sets out the bonuses earned for the 2022 financial year and the split between cash and deferred elements.

Director	Max bonus opportunity (as % base salary)	Total bonus outcome (as % of maximum)	Total bonus outcome (as % base salary)	Total bonus outcome (£000)	Amount paid in cash (£000)	Amount deferred in shares (£000)
Will Gardiner	175%	87.5%	153.1%	966	579	386
Andy Skelton	150%	87.5%	131.3%	527	316	211

For 2022, 40% of the total bonus award will be deferred into shares for a period of three years and the remaining 60% will be paid in cash in March 2023. The deferral element will in ordinary circumstances vest in March 2026, subject to the Executive Director being employed by Drax at that time. If the Executive Director leaves, other than as a "good leaver", the deferral element will be forfeited.

LTIP incentive outcomes (audited information)

The vesting outcome for awards granted in 2020 under the LTIP, which were subject to performance conditions over the three-year period from 1 January 2020 to 31 December 2022, and will vest in May 2023, is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)	Actual performance
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile	158.9% (rank of 5 out of FTSE 350)
Cumulative Adjusted EPS	50%	100.1p	117.5p	144.7p

The Committee considered the Group's overall performance for 2022 and felt no discretion to the 2020 LTIP outcome was required. A full explanation of factors which were taken into account is provided on page 129.

Director	Awards Granted (as % of base salary)	Awards granted	Awards vesting (as % of base salary)	Awards vesting	Dividend shares earned	Total shares due to vest	Total value (£000)[1]
Will Gardiner	200%	562,506	577%	562,506	64,641	627,147	3,636
Andy Skelton	175%	320,697	517%	320,697	36,852	357,549	2,073

Notes:

(1) Represents the value of the 2020 LTIP award which should vest in May 2023, together with the dividend shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2022, which was £5.798. The value of the award attributable to share price appreciation for Will Gardiner is £2.38m and for Andy Skelton is £1.36m. This is based on the growth in value of the shares due to vest (including dividend shares) from the grant share price £1.995 to the average share price over the quarter of 2022 (£5.798).

LTIP awards granted in 2022 (audited information)

The table below shows the conditional awards granted under the LTIP to Executive Directors on 18 March 2022.

Director	Award granted (as % of salary)	Number of shares granted[1]	Face value of awards granted (£000)
Will Gardiner	200%	174,119	1,220
Andy Skelton	175%	96,907	679

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £7.007. In accordance with the LTIP rules, dividend shares are awarded at the time and in the event that awards actually vest. No dividend shares are awarded where the initial awards lapse.

The performance conditions that apply to the LTIP awards granted in 2022 are set out below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile
Cumulative Adjusted EPS	50%	239.5p	292.7p

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2024.

DSP awards granted in 2022 (audited information)

The table below shows the deferred conditional share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 18 March 2022 in respect of bonus earned for performance in the financial year ending 31 December 2021. These shares will vest on 18 March 2025.

Director	Value of deferred bonus (£000)	Number of shares granted[1]
Will Gardiner	321	45,809
Andy Skelton	179	25,590

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £7.007. In accordance with the DSP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Sharesave options granted in 2022 (audited information)

No grants of Sharesave options were made to Will Gardiner or Andy Skelton in 2022. Both have ongoing Sharesave contracts to the maximum permitted monthly savings.

Pension entitlements for defined contribution schemes (audited information)

Executive Directors are entitled to receive a contribution to the Group's defined contribution pension plan, cash in lieu of pension contributions or a mixture of these. The employer contribution for Will Gardiner in 2022 was 20% of base salary and for Andy Skelton it was 16%. Will Gardiner's employer contribution was delivered as cash in lieu of pension, whereas for Andy Skelton it was delivered in part as contributions to Group pension plan and part as cash in lieu. No Executive Director was a member of a defined benefit pension scheme.

Effective 1 January 2023 the employer pension contributions for Will Gardiner and Andy Skelton were reduced to 10% in line with the rate for new joiners to the UK wider workforce. This is also the most common pension contribution rate for UK-based employees.

Payments to former directors (audited information)

There were no payments to former Directors.

Payments for loss of office (audited information)

There were no payments in 2022 to former Directors with respect to loss of office.

Statement of Directors' shareholding and share interests (audited information)

The shareholding guidelines under the current Directors' Remuneration Policy require Executive Directors who receive shares by virtue of share plan awards, or who receive deferred bonus share awards under the DSP, to retain 50% of the shares received net (i.e. after income tax and national insurance contributions) until the value held is equal to at least 250% of salary for the CEO and 200% of salary for other Executive Directors. Only shares that are not subject to performance conditions count towards the shareholding requirement (shares owned by the Director and unvested awards subject to service only – DSP awards – on a net of tax basis).

As at 31 December 2022, the shareholding guidelines were met as detailed in the table below.

Directors' interests in shares

Director	Number of shares[1]	Value at year end[2]	Shareholding (as % of base salary)	Shareholding guideline
Will Gardiner[3]	790,101	£5,554,410	881%	250%
Andy Skelton[4]	277,667	£1,108,562	487%	200%

Notes:
(1) The number of shares also includes shares purchased in the open market by the Executive Director and those acquired through participation in Sharesave programmes.
(2) Based on the mid-market quotation on 31 December 2022 of £7.030.
(3) The total figure includes 693,375 shares owned, plus 96,726 unvested DSP shares on a net of tax basis. For reference, Will Gardiner purchased 338,105 shares in the open market between 2015 and 2022 but sold 46,667 shares and gifted 61,345 to charity leaving a net balance of 230,093 shares
(4) The total figure includes 221,479 shares owned, plus 56,188 unvested DSP shares on a net of tax basis. 142,976 shares were purchased by Andy Skelton in the open market between 2019 and 2022.

Directors' interests under share plans

Director	Date of grant	As at 1 January 2022	Awards made during the year	Number of shares vesting during the year	Number of shares lapsing during the year	As at 31 December 2022	Date of vesting[1]	Value of awards[2]
Will Gardiner								
2019 DSP	28 March 2019	38,941	0	38,941	0	0	28 March 2022	£0
2019 PSP	28 March 2019	247,245	0	191,071	56,174	0	28 March 2022	£0
2020 DSP	30 March 2020	82,195	0	0	0	82,195	30 March 2023	£577,831
2020 LTIP	7 May 2020	562,506	0	0	0	562,506	7 May 2023	£3,954,417
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£135,930
2021 DSP	1 April 2021	54,498	0	0	0	54,498	1 April 2024	£383,121
2021 LTIP	1 April 2021	266,650	0	0	0	266,650	1 April 2024	£1,874,550
2022 DSIP	18 March 2022	0	45,809	0	0	45,809	18 March 2025	£322,037
2022 LTIP	18 March 2022	0	174,119	0	0	174,119	18 March 2025	£1,224,057
Total		**1,275,638**	**219,928**	**230,012**	**56,174**	**1,209,380**	**407,407**	**£8,471,942**
Andy Skelton								
2019 PSP	28 March 2019	165,607	0	127,981	37,626	0	28 March 2022	£0
2020 DSP	30 March 2020	49,985	0	0	0	49,985	30 March 2023	£351,395
2020 LTIP	7 May 2020	320,697	0	0	0	320,697	7 May 2023	£2,254,500
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£135,930
2021 DSP	1 April 2021	30,441	0	0	0	30,441	1 April 2024	£214,000
2021 LTIP	1 April 2021	152,022	0	0	0	152,022	1 April 2024	£1,068,715
2022 DSIP	18 March 2022	0	25,590	0	0	25,590	18 March 2025	£179,898
2022 LTIP	18 March 2022	0	96,907	0	0	96,907	18 March 2025	£681,256
Total		**742,355**	**122,497**	**127,981**	**37,626**	**699,245**		**£4,885,693**

Notes:
(1) The vesting date shown reflects the three-year anniversary, but the Committee reserves the right to change the vesting date by a period not exceeding 30 days.
(2) Based on the mid-market quotation on 31 December 2022 of £7.030. For Sharesave options, this is the intrinsic value, e.g. based on the excess value at 31 December 2022 over and above the exercise price.

There was one movement in share interests between 31 December 2022 and the last practicable date for recording changes prior to the date of publication. On 23 February 2023 Andy Skelton, CFO, purchased 13,246 shares, and Andy's Person Closely Associated, Nichola Skelton, purchased 6,244 shares, taking Andy's total interest in shares to 297,157.

Remuneration Committee report continued

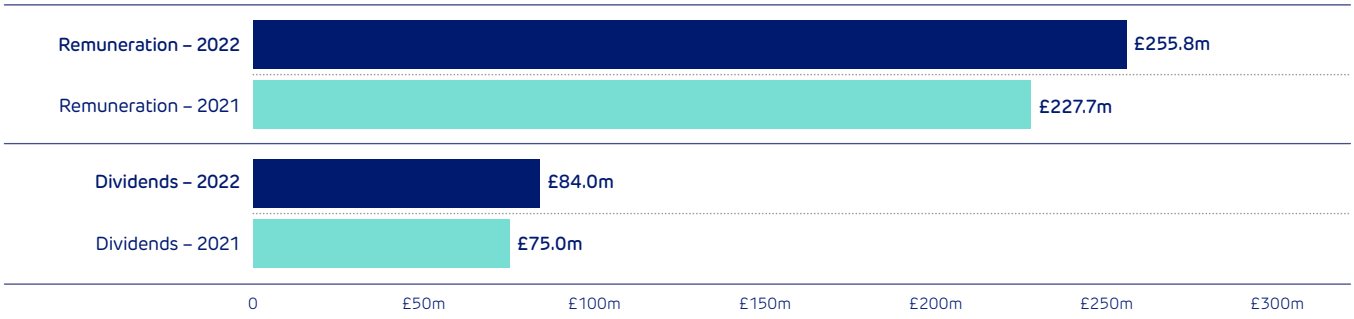
Service agreements or contracts for services

The following table shows, for each Director of the Company as at the date this Annual Report and Accounts is published, or those who served as a Director of the Company at any time during the year ended 31 December 2022, the start date and term of the service agreement or contract for services, and details of the notice periods. A new contract for services was agreed with John Baxter in 2022.

Director	Date appointed as a director and member of the Board	Contract start date/ renewal date	Permitted Contract term (years)	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	16 November 2015	Indefinite term	12	12
Andy Skelton	2 January 2019	2 January 2019	Indefinite term	12	12
Philip Cox	1 January 2015	1 January 2021	3 years	6	6
John Baxter	17 April 2019	17 April 2022	3 years	1	1
Nicola Hodson	12 January 2018	12 January 2021	3 years	1	1
Kim Keating	21 October 2021	21 October 2021	3 years	1	1
David Nussbaum	1 August 2017	1 August 2020	3 years	1	1
Erika Peterman	21 October 2021	21 October 2021	3 years	1	1
Vanessa Simms	19 June 2018	19 June 2021	3 years	1	1

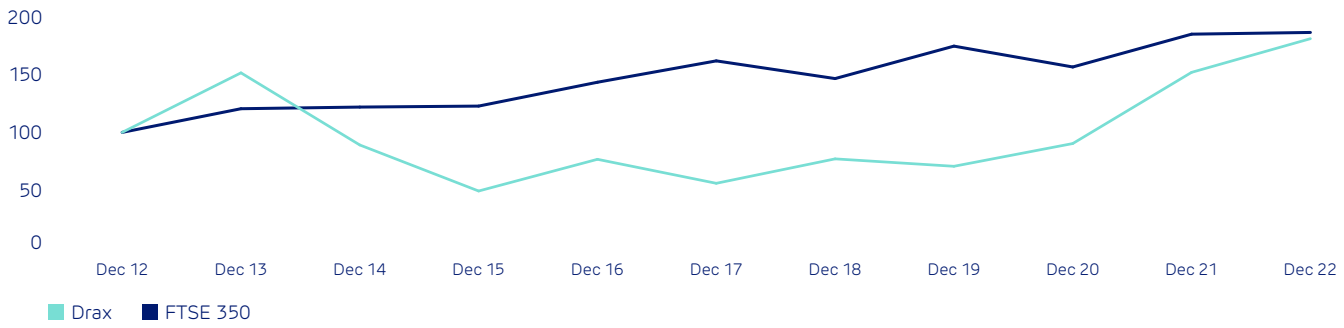
Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to distributions to shareholders. At the AGM on the 26 April 2023 the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2022. The cost with respect to dividends for 2022 in the table below relates to the interim dividend, which was paid in October 2022, and the final dividend to be paid in May 2023, subject to approval at the AGM.



Drax 10 year Total Shareholder Return performance to 31 December 2022

The graph below shows how the value of £100 invested in both Drax and the FTSE 350 Index (Index) on 31 December 2012 has changed. This Index has been chosen as a suitable broad comparator against which Drax's shareholders may judge their relative returns given that Drax is a member of the Index. The graph reflects the TSR for Drax and the Index referred to on a cumulative basis over the period from 31 December 2012 to 31 December 2022.



CEO's pay – last 10 financial years

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Group CEOs total single figure (£000)	3,360	1,854	1,248	1,581	1,236	1,885	1,121	2,013	3,226	5,377
Bonus % of maximum awarded	100.00%	73.00%	46.00%	88.00%	53.00%	53.00%	45.00%	45.00%	80.50%	87.50%
LTIP award % of maximum vesting	–	40.52%	21.66%	15.43%	0.00%	57.63%	18.00%	57.20%	77.28%	100.00%

Percentage change in Directors' remuneration compared with the wider employee population

The table below shows how the percentage change in the Directors' salary/fees, benefits and bonus (where applicable) between 2020 and 2022 compares with the percentage change in the average of each of those components of pay for a group of employees. There are several employer entities but no employees who are specifically employed by Drax Group plc. As a result, the Committee has selected all Group employees below Executive Director level based in the UK, as the majority of employees are based in the UK and this provides the most appropriate comparison.

	Salary/fees (percentage increase)			Taxable benefits (percentage increase)			Bonus (percentage increase)		
	2020	2021	2022	2020	2021	2022[1]	2020[2]	2021	2022[3]
Will Gardiner	3.0%	2.0%	10.7%	0.0%	0.0%	0.0%	19.2%	82.9%	20.3%
Andy Skelton	3.0%	2.0%	8.1%	0.0%	0.0%	0.0%	9.4%	82.9%	17.5%
Philip Cox	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
John Baxter	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Nicola Hodson	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Kim Keating[4]	N/A	N/A	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
David Nussbaum	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Erika Peterman[4]	N/A	N/A	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Vanessa Simms	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Average for UK employees	3.0%	2.0%	4.5%	0.0%	0.0%	0.0%	0.0%	78.9%	8.7%

Notes:
(1) With respect to taxable benefits, there has been no material change to Drax's existing benefits policies over the three reporting years.
(2) The maximum bonus opportunity for Will Gardiner and Andy Skelton increased for 2021 to 175% and 150% respectively, which explains the percentage difference compared to UK colleagues. The bonus scorecard outcome for 2019 and 2020 was the same and this is reflected in the 0% change for the average UK employee.
(3) The percentage change for 2022 shows an increase from 2021. This is because the bonus scorecard outcome for 2022 (1.75) is higher than it was for 2021 (1.61). Both Will Gardiner and Andy Skelton received higher base pay increases in 2022 than the average UK employee reflective of the changes to the business and therefore their bonus change for 2022 is larger when compared to the average UK employee.
(4) Kim Keating and Erika Peterman joined the Board on 21 October 2021 and therefore the percentage change in their fees has not been provided for 2020 and 2021.

CEO pay ratio

The table below sets out the CEO pay ratio for 2022, along with the comparative ratios since 2019. The pay ratios have been calculated using actual earnings for the CEO and UK employees. The CEO total single figure remuneration is given on page 147 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2022	Option A	114:1	79:1	57:1
2021	Option A	84:1	52:1	34:1
2020	Option A	65:1	38:1	25:1
2019	Option A	42:1	25:1	16:1

The methodology used for calculating the 2019, 2020, 2021 and 2022 pay ratios was the same. For 2022, the total remuneration of all UK employees of the Group on 31 December 2022 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2022. The only exception is for employees with Defined Benefit (DB) pensions, where the employer contribution to the respective schemes has been used in the calculation (rather than the single figure methodology) to reduce the administrative complexity. This is likely to undervalue the DB pension value. No adjustments, other than to achieve full-time and full-year equivalent rates, were made and no components of remuneration have been omitted. Of the three options permitted to calculate the percentiles, the Committee has chosen option A (the calculation of the total pay and benefits for 2022 for all UK employees on an FTE basis), as we believe it is the most robust and most statistically accurate method of the options permitted.

Set out in the table below is the base salary and the total pay and benefits for each of the identified employees in respect of 2022.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£23,358	£36,697	£52,825
Total Pay and Benefits	£47,370	£68,326	£94,770

Base salaries of all employees, including Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The CEO has a larger portion of his pay based on performance of the business than the individuals at P25, P50 and P75. The Committee believe that our senior executives should have a significant portion of their pay directly linked to the performance of the business but recognise that this does mean the pay ratios will fluctuate each year depending on business performance and associated outcomes of incentive plans.

The 2022 pay ratios report a wider gap between actual earnings of the CEO and UK employees (than compared to the 2019, 2020 and 2021 CEO pay ratios). This is ultimately due to the higher vesting of the 2020 LTIP versus the vesting of the 2019, 2018 and 2017 PSP awards (100% versus 77.28%, 57.2% and 18.0% respectively). To a lesser extent, this is also driven by the higher Scorecard outcome for 2022 than in the previous years in the sample (1.75 versus, 1.61, 0.90 and 0.90).

The Group is comprised of different business units and teams with different levels of pay, including call centre staff, support staff and engineers. The Committee reviews information about employee pay, reward and progression policies of the Group and (given the relative differences in responsibilities of the roles, the pay relativities between grades within the organisation, and the positioning of pay versus the wider market) is comfortable that the median pay ratio is consistent with these policies.

Single total figure of remuneration – Non-Executive Directors (audited information)

The fees for the Chair and Non-Executive Directors were reviewed at the start of 2022 and were subsequently increased by 4.5% with effect from 1 January 2022. This was aligned with the average increase for the wider workforce in 2022. For completeness, the table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2022 together with comparative figures for 2021. The figures are rounded up to the nearest £000.

Director	Year	Base fee (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Philip Cox	2022	267	–	–	267
	2021	255	–	–	255
John Baxter	2022	59	–	–	59
	2021	56	–	–	56
Nicola Hodson	2022	59	–	11	70
	2021	56	–	10	66
Kim Keating[1]	2022	59	–	–	59
	2021	11	–	–	11
David Nussbaum[2]	2022	59	11	–	70
	2021	56	10	–	66
Erika Peterman[3]	2022	59	–	–	59
	2021	11	–	–	11
Vanessa Simms	2022	59	–	11	70
	2021	56	–	10	66

Notes:
(1) Kim Keating joined the Board on 21 October 2021. The 2021 payments show pro-rated payments made. Kim is based in Canada and her fee was paid in Canadian dollars. Her base fee was in line with the fee structure in the Policy and was converted into Canadian dollars based on the exchange rate £1 = C$1.72.
(2) From 1 January 2019 to 31 March 2022, David Nussbaum donated his gross fees to charity.
(3) Erika Peterman joined the Board on 21 October 2021. The 2021 payments show pro-rated payments made. Erika is based in the US and her fee was paid in US dollars. Her base fee was in line with the fee structure in the Policy and was converted into US dollars based on the exchange rate £1=$1.37.

Non-Executive Directors' shareholdings

There is no shareholding requirement for Non-Executive Directors. The table below shows the shareholdings of the Non-Executive Directors, and their connected persons, and the value is based on the mid-market quotation on 31 December 2022 of £7.030. There was no movement in share interests between 31 December 2022 and the date of publication.

Director	Number of shares	Value at year end
Philip Cox	60,000	£421,800
John Baxter	10,000	£70,300
Nicola Hodson	0	£0
Kim Keating	0	£0
David Nussbaum	0	£0
Erika Peterman	0	£0
Vanessa Simms	0	£0

Statement of Implementation of the Remuneration Policy in 2023

This section sets out the proposed implementation of the Directors' Remuneration policy in 2023. No deviations from the procedure for the implementation of the policy are proposed.

Base Salary

Below are the base salaries of the Executive Directors which took effect from 1 January 2023. There are no further planned increases for 2023. The base salary increase in January 2023 was 4.0% and this was made as part of the annual pay review process. This increase was less than the average increase for the wider workforce. A more thorough explanation on the pay increase is given on page 130 which also outlines the decision to bring forward the effective date of the 2023 pay review from 1 April to 1 January.

	Base Salary as at 1 April 2022 (£000)	Base Salary as at 1 January 2023 (£000)	Percentage increase
Will Gardiner	£638	£663	4.0%
Andy Skelton	£406	£422	4.0%

Benefits and pension

There are no changes intended to the benefits provided to the Executive Directors. The pension contribution rate for Will Gardiner reduced from 20% to 10% and for Andy Skelton reduced from 16% to 10%, effective 1 January 2023. The purpose of this change was to align their pension contribution rate with the applicable rate for new joiners to the UK wider workforce.

Annual bonus

The Group Scorecard metrics for 2023 are shown below. The performance targets for the scorecard are commercially sensitive therefore protective disclosure would not be in the best interest to stakeholders. The outcome of the 2023 scorecard will be disclosed in the 2023 Annual Report on Remuneration.

Target	Reason for use
Financial metrics (overall weighting of 60% in the Scorecard)	
Group adjusted EBITDA (40% weighting)	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Leverage (20% weighting)	A progressive and structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year.
Strategic metrics (overall 40% weighting in the Scorecard)	
Progress on strategic projects (20% weighting)	This element of the Scorecard will be assessed on progress against three key strategic imperatives. The first is a KPI based on progress made on BECCS, both in respect to advancing our roadmap for the implementation of BECCS at Drax Power Station and the deployment of new build BECCS in the US. The second KPI focuses on the expansion of the Cruachan pumped storage power station. Performance will be assessed against a range of technical and commercial milestones. The third KPI focuses on the delivery of the stretching budget volume growth in 2023 of our pellet production.
Safety and ESG (20% weighting)	Safety and ESG are a critical part of our values and how Drax will create long-term sustainable returns for shareholders. This element of the Scorecard will be assessed against three facets. The first is a KPI focused on improving inclusion across Drax, assessed based on an independent rating. This KPI was included in the prior year Scorecard. The second KPI is focused on reducing Drax's carbon emissions across the Group and at a site level. Finally, a safety KPI is re-introduced to the Scorecard providing a holistic view of the Group's safety performance.

LTIP

The Committee intends to grant LTIP awards to Executive Directors of 200% of salary for the CEO and 175% of salary for the CFO.

For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with upper quartile. TSR performance will be measured over the period 1 January 2023 to 31 December 2025.

For the EPS element, targets for the 2023 grant have been agreed by the Committee at the meeting in February. The EPS target was set after considering the company's internal forecasts, market expectations and sector peers. The EPS target is 'Adjusted EPS', derived from Adjusted Results as reported in the Company's audited financial statements. Instances where such adjustments might apply include acquisition and restructuring costs, asset obsolescence charges and certain remeasurements on derivative contracts. EPS performance will be measured over the period 1 January 2023 to 31 December 2025 and vesting will be in accordance with the following schedule. Note, vesting between the threshold and maximum will be on a straight-line basis. The Committee will undertake a final review of the proposed grants for the 2023 financial year, including the performance targets, immediately prior to making the grant in order, where necessary, to reflect changes to market conditions. This recognises current market volatility.

Performance	Target	% of Award Vesting (of EPS performance condition)
Below threshold	<322.8p	0%
Threshold	322.8p	25%
Maximum	394.6p	100%

With regards to targets set in 2023 for each of the performance related incentives, the Committee retains discretion to restate or make adjustment to those targets in appropriate circumstances (such as material acquisitions, divestments, changes in capital structure or capital returns to shareholders). This would take account of the importance of such performance targets fulfilling their original intent and that they are not more or less challenging than intended when set and of relevant events in the performance period. Any amendments would be disclosed in the Remuneration Report at the relevant time.

Non-Executive Directors' fees

The annual fee structure for the Non-Executive Directors for 2023 is shown in the table below. The fee structure for 2022 is also provided for reference. The increase in base fee for the Chair and Non-Executive Directors is consistent with the increase that the Executive Directors received as part of the 2023 annual pay review process (which was less than the average increase of the wider workforce of 8%). Following an exercise with the Committee's independent adviser, it was identified that the additional fees were significantly below market rate given the current and expected future time commitment of the roles. The proposed increase to the additional fees is to bring them in line with the median of constituents of the FTSE 250 of a similar size to Drax. As outlined in the Policy, subject to shareholder approval, flexibility will be introduced to provide a travel allowance to recognise the additional time and expenses incurred by non-executives based overseas in providing services to a UK based listed company.

Director	Fees at 1 January 2022 (£)	Fees at 1 January 2023 (£)	Percentage increase (1 January 2023)
Chair	266,500	277,250	4.0%
Non-Executive Director base fee [1]	58,600	61,000	4.1%
Senior Independent Director	10,660	12,750	19.6%
Audit Committee Chair	10,660	12,750	19.6%
Remuneration Committee Chair	10,660	12,750	19.6%
Nomination Committee Chair[2]	7,995	12,750	59.5%

Notes:
(1) The 2023 fees for the two Non-Executive Directors based outside of the UK will be paid in their respective local currency.
(2) No fee was is currently paid for chairing this sub-Committee as the Chair is also the Nomination Committee Chair.

Shareholder voting

The table below shows the voting outcome at the 2022 AGM on the 2021 Annual Report on Remuneration. The votes cast represent 80.92% of the issued share capital. In addition, shareholders holding 2,325,760 shares abstained.

Voting on the 2021 Annual Report on Remuneration	For	Against
Number of votes	314,846,755	9,078,526
Proportion of votes	97.20%	2.80%

The table below shows the voting outcome for the Directors' Remuneration Policy at the 2020 AGM. The voting for the Directors' Remuneration Policy for 2023-2026 will take place at the AGM to be held on 26 April 2023.

Voting on the 2020-2023 Annual Report on Remuneration	For	Against
Number of votes	304,206,978	17,334,456
Proportion of votes	94.61%	5.39%

Adviser to the Committee

Until 24 May 2022, PwC were the adviser to the Committee. PwC is an independent adviser appointed by the Committee in October 2010. PwC were paid £18,700, excluding VAT, during 2022 in respect of advice given to the Committee determined on a time and material basis. As noted in last year's report, the Committee began a review of its independent adviser and on conclusion appointed Korn Ferry as the new adviser to the Committee. This appointment took effect on 25 May 2022. Korn Ferry were paid £108,360, excluding VAT, during 2022 in respect of advice given to the Committee determined on a time and material basis. Both PwC and Korn Ferry are members of the Remuneration Consultants Group and are signatory to its Code of Conduct. The Committee has satisfied itself that the advice it received from PwC and Korn Ferry was, and remains, objective and independent. Korn Ferry has no other connection with the company or individual Directors, and Korn Ferry has confirmed that there are no conflicts of interest, as has PwC for the period of 2022 where they were the adviser to the Committee.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson
Chair of the Remuneration Committee
22 February 2023

Directors' report

This report contains information which the Company is obliged to disclose and which cannot be found in the strategic, financial, sustainability or corporate governance reports of this document.

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's report for the year ended 31 December 2022. The Directors' report required under the Companies Act 2006 is comprised of this report, the Corporate Governance Report and the Audit, Nomination and Remuneration Committee reports.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.1 to the Consolidated financial statements on page 252.

Directors

The following Directors held office during the year:

Philip Cox	Vanessa Simms
Will Gardiner	John Baxter
Andy Skelton	Kim Keating
David Nussbaum	Erika Peterman
Nicola Hodson	

The appointment and replacement of Directors is governed by the Company's Articles of Association (Articles), the UK Corporate Governance Code, the Companies Act 2006 and related legislation. See Articles 77 to 86 of the Company's Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/.

Annual General Meeting (AGM)

The AGM will be held at 12.30pm on Wednesday 26 April 2023 at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

Dividends

An interim dividend of 8.4 pence per share was paid on 7 October 2022 (2021: 7.5 pence), to shareholders on the register on 26 August 2022.

The Directors propose a final dividend of 12.6 pence per share (2021: 11.3 pence), which will, subject to approval by shareholders at the AGM, be paid on 19 May 2023, to shareholders on the register on 21 April 2023.

Details of past dividends can be found on the Company's website at www.drax.com/investors/shareholder-information/dividends/.

Share capital

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

The Company has only one class of equity shares, being ordinary shares of $11\frac{16}{29}$ pence each, with each ordinary share having one vote. Shares held in treasury do not carry voting rights.

Details of movements in the Company's issued share capital can be found in note 4.4 to the Consolidated financial statements on page 229.

Shares in issue

At 1 January 2022	413,068,027
Issued in period	1,804,464
At 31 December 2022	414,872,491
Treasury shares at 31 December 2022	13,841,295
Total voting rights at 31 December 2022	401,031,196
Issued between 1 January and 22 February 2023	38,131
At 22 February 2023	414,910,622
Treasury shares at 22 February 2023	13,841,295
Total voting rights at 22 February 2023	401,069,327

Authority to purchase own shares

At the AGM held on 27 April 2022, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2023 AGM, shareholders will be asked to renew the authority to make market purchases of up to 10% of the issued ordinary share capital. More details on resolution 20 can be found in the Notice of Meeting. During 2022, the Directors did not use their authority to purchase shares in the Company.

Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service – and on the Company's website.

As at 22 February 2023, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held(1)
Invesco Limited	22 Oct 2020	–	38,578,024	–	38,578,024	9.71%
Schroders plc	29 Jun 2021	–	38,333,806	67,765	38,401,571	9.64%
BlackRock Inc	17 May 2022	–	30,287,345	439,227	30,726,572	7.66%
Orbis Holdings Limited	15 Jul 2022	–	19,744,793	–	19,744,793	4.93%

Notes:
(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR.

Rights and obligations attaching to shares

The rights attaching to the Company's Ordinary Shares are set out in the Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/. The Articles may only be changed by shareholders by special resolution.

Attention should be given to the following sections within the Articles, covering the rights and obligations attaching to shares:

- Variation of rights – which covers the rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate General Meeting of the holders of shares of the class duly convened and held in accordance with the Companies Act.
- Transfer of shares – provides detail of how transfers of shares may be undertaken. It also sets out the Directors' rights of refusal to effect a transfer and the action that Directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other holders of shares in the Company, for a transfer of shares to take place.
- Voting, deadlines and proxies – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of appointment of a proxy or corporate representative, the Articles provide for the submission of proxy forms not less than 48 hours (or such shorter time as the Board may determine) before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and General Meetings.

Disabled employees

The Company gives full consideration to applications for employment by disabled persons, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues, and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

Political donations

Drax is a politically neutral organisation and, as further explained below, did not make any political donations or incur any political expenditure (within the ordinary meaning of those words) in 2022. The Company regularly engages with regulators and policymakers (including those associated with political parties and governments) to listen and contribute to discussions on a wide range of matters. Such engagement is an important part of our strategy and contributing to initiatives enabling the UK in its goal of reaching net zero by 2050. Further information on how we engage with stakeholders can be found on pages 26 to 33, and our Political Engagement Policy can be found on the Company's website at: www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/. Due to the broad definition of political donations under the Companies Act 2006 (the Act),and as a matter of good governance and transparency, we have provided information on areas of expenditure incurred as a result of this engagement which may be regarded as falling within the scope of the Act. During the year ended 31 December 2022, Drax exhibited at, sponsored, and held events at, conferences organised by political parties, spending a total of £94,572 (2021: £75,925). This included sponsorship of events at the Labour Party business conference (£12,000) and the Yorkshire and the Humber Labour Party annual conference (£12,000), and hiring exhibition stands at the Conservative Party annual conference (£45,377) and Scottish National Party annual conference (£10,495). These events allow Drax to present its views on a non-partisan basis to politicians from across the political spectrum and non-political stakeholders such as NGOs and other listed and non-listed companies. These payments do not indicate support for any political party. Overall, the recipients were the Conservative Party (£57,977), the Labour Party (£26,100) and the Scottish National Party (£10,495).

At the 2023 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2022 AGM. More details are contained in the Notice of Meeting.

Other significant agreements

- A £300 million facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017, as further amended and restated on 18 November 2020 and as further amended and restated on 14 September 2021) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the Facility Agreement).
- An indenture dated 26 April 2018 (as amended and supplemented from time to time, including by a supplemental indenture dated 12 February 2019 and a supplemental indenture dated 16 May 2019) between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing $500 million 6.625% senior secured notes due November 2025 (the 2018 Indenture).
- An indenture dated 4 November 2020 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing €250 million 2.625% senior secured notes due 2025 (the 2020 Indenture and, together with the 2018 Indenture, the Indentures).
- A £375 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) as amended and restated on 20 September 2021 (the '2019 Private Placement').
- A £98 million and €126.5 million term loan facilities agreement dated 18 August 2020, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) as amended and restated on 21 September 2021 (the 2020 Private Placement).
- A loan facilities agreement dated 12 July 2021 between, amongst others, Pinnacle Renewable Energy Inc. and Royal Bank of Canada (as facility agent) which includes a C$300 million term loan facility and C$10 million revolving credit facility (2021 Facility Agreement).
- A £200,000,000 revolving credit facility agreement dated 9 December 2022 made between amongst others Drax Corporate Limited and Lloyds Bank plc as facility agent (the 2022 RCF Agreement).

Under the Indentures, a change of control (a Notes Change of Control) occurs if any person other than Drax Group plc becomes the ultimate beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited (unless replaced by a successor parent company), or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed of outside of the Group. No later than 60 days after any change of control, Drax Group Holdings Limited must offer to purchase any outstanding notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

Under the Facility Agreement, the 2019 Private Placement, the 2020 Private Placement, the 2021 Facility Agreement, and the 2022 RCF Agreement, a change of control occurs if any person or group of persons acting in concert gains control of Drax Group plc or if Drax Group plc no longer holds directly 100% of the issued share capital of Drax Group Holdings Limited (subject to carve-outs for the interposition of an intermediate holding company) or else if a Notes Change of Control occurs. Following a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Further information in respect of the Group's financial risk management programme (including commodity risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, and credit risk) appears in note 7.2 to the Consolidated financial statements on page 257.

Directors' interests and indemnity arrangements

Other than a service contract between the Executive Directors and a Group company, no Director had a material interest at any time during the year in any significant contract with the Company or any of its subsidiary undertakings. There are no agreements between the Group and its Directors providing for compensation for loss of office or employment because of a takeover bid. The Company has appropriate indemnity insurance cover in place in respect of legal action against Directors of the Company and its subsidiaries.

Strategic report

The Strategic report on pages 1 to 91 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, streamlined energy and carbon reporting requirements (SECR), future development and research activities.

Auditors and the disclosure of information to the auditor

So far as each person serving as a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all steps that they ought to have taken as a Director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

During 2021 the Audit Committee conducted an audit tender process for the external auditor. The result of this tender process was the appointment of PricewaterhouseCoopers LLP (PwC) as the new external auditor, to take effect from, and including, the financial year ending 31 December 2024. The appointment will be recommended to shareholders for approval at the AGM in 2024. Deloitte LLP continued in its role as external auditor to Drax for the financial year ending 31 December 2022 and, subject to shareholder approval at the 2023 AGM, Deloitte LLP will continue in its role as external auditor to Drax for the financial year ending 31 December 2023. Resolutions will be proposed at the AGM for (i) the re-appointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the Directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 116 to 126.

The Directors' report was approved by the Board on 22 February 2023 and is signed on its behalf by:

Brett Gladden
Group Company Secretary

Registered office: Drax Power Station, Selby, North Yorkshire, YO8 8PH

Registered in England and Wales Number 5562053

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 22 February 2023 and is signed on its behalf by:

Will Gardiner
CEO

Verification statements

LRQA Independent Assurance Statement

Relating to the Drax Group Plc Environmental and Social Governance data for the period 1 January 2022 to 31 December 2022.

LRQA Limited (LRQA) has provided independent limited assurance to Drax Corporate Limited (Drax) over specific data within the Drax Group plc Annual Report 2021 (the Report) including the following:

- Group GHG emissions (Scope 1 and 2)
- Group GHG emissions (Scope 3)
- Water abstraction and discharge
- Employment data on headcount
- Group energy consumption
- Percentage of emissions in the UK
- Group generation emissions intensity
- Group emissions intensity

The assurance was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000. LRQA's full independent limited assurance statement can be found at www.drax.com/sustainability

Summary Assurance Statement from Bureau Veritas UK Ltd

Bureau Veritas UK Ltd has provided independent assurance to Drax Group Plc over its 'average biomass supply chain greenhouse gas emissions' data as reported in its Annual Report and Accounts 2022.

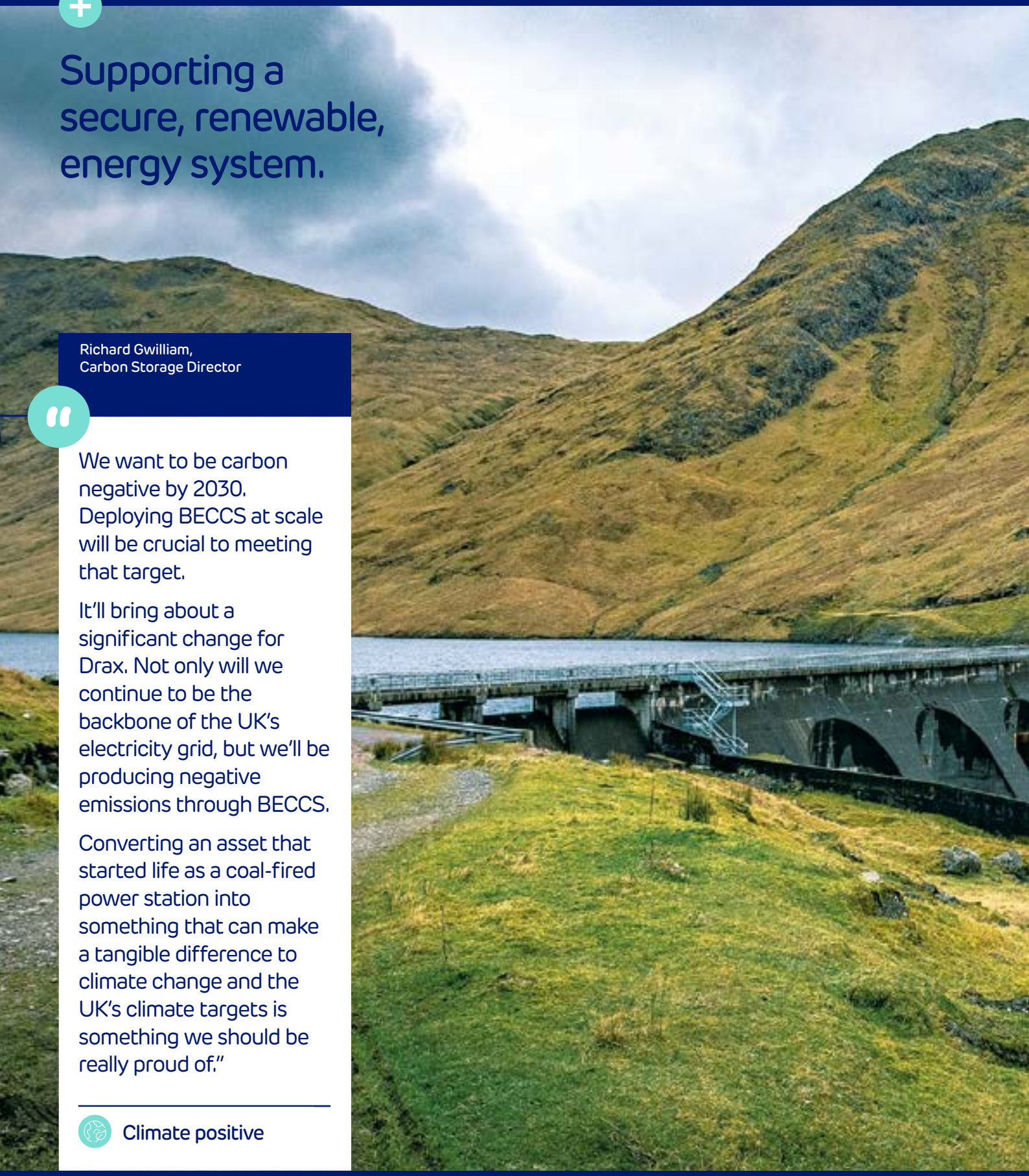
The assurance process was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after 15 December, 2015), issued by the International Auditing and Assurance Standards Board.

Bureau Veritas' full assurance statement includes certain limitations, exclusions, observations, and a detailed assurance methodology and scope of work.

The full assurance statement with Bureau Veritas' independent opinion can be found at www.drax.com/sustainability

London, 20 February 2023

Supporting a secure, renewable, energy system.



Richard Gwilliam,
Carbon Storage Director

"We want to be carbon negative by 2030. Deploying BECCS at scale will be crucial to meeting that target.

It'll bring about a significant change for Drax. Not only will we continue to be the backbone of the UK's electricity grid, but we'll be producing negative emissions through BECCS.

Converting an asset that started life as a coal-fired power station into something that can make a tangible difference to climate change and the UK's climate targets is something we should be really proud of."

Climate positive

Lewis Byron,
Graduate Mechanical Engineer
at Cruachan Power Station

"

It's an exciting time to be at Drax. The expansion of pumped storage generation at Cruachan will require a lot of people with specialist knowledge, and it will be good to be able to learn from them.

I've been able to apply what I learned at university by working on outages and learning from other engineers on site – it's an experience you can't really teach.

The expansion of Cruachan will mean more people getting to have the same opportunities that I've had."

Climate positive

People positive

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Independent Auditor's report to the members of Drax Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- **the financial statements of Drax Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the basis of preparation and statement of accounting policies on pages 176 to 180;
- the notes in Section 2.1 to 8.3 related to the consolidated financial statements; and
- the notes in Section 1 to 9 related to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in Section 2.3 of the notes to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of goodwill and other intangible assets • Valuation of commodity, inflation and foreign exchange contracts • Estimation of Customers accrued income • Estimation of expected credit loss provision in Opus Energy Limited (Opus Energy) Within this report, key audit matters are identified as follows: (!) Newly identified (^) Increased level of risk (<>) Similar level of risk (v) Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £15m, representing approximately 2% of current year's Adjusted EBITDA[1].
Scoping	As further explained in Section 7.1, we performed full scope audit on eight significant components, and audit of specified account balances on a non- significant component. These components represent the group's principal business units and account for substantially all the group's net assets, revenue, and profit before tax.
Significant changes in our approach	*Changes in key audit matters* Estimation of expected credit loss provisions in Opus Energy has been identified as a key audit matter in the current year due to the increase in risk of customer default associated with the current macro-economic conditions and uncertainties.

[1] Adjusted EBITDA is Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation, excluding the impact of exceptional items and certain remeasurements

Independent Auditor's report to the members of Drax Group plc continued

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the availability of adequate funding, repayment terms and covenants;
- assessing the historical accuracy of forecasts prepared by management and key assumptions underpinning the forecasts;
- checking the mathematical accuracy of the model used to prepare the forecasts;
- challenging the assumptions used in the forecasts, including performing sensitivity analyses in relation to assumptions for future commodity prices;
- checking the amount of headroom in the forecasts;
- assessing whether the directors have considered and reflected the impact of climate risks and opportunities in the group's going concern assessment; and
- evaluating the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of goodwill and other intangible assets

Key audit matter description	As at 31 December 2022, the carrying amount of the group's goodwill and other intangible assets amounted to £424.2m (2021: £416.3m) and £142.3m (2021: £188.6m). The group's impairment assessment of the carrying value of each cash generating units to which goodwill is allocated, is performed in accordance with IAS 36 Impairment of Assets. The recoverable amount of the group's goodwill was assessed by reference to value in use calculations which require estimates, including significant assumptions regarding future cash flows and discount rates. The cash flow forecasts are derived from the group's business plan, which considers variables such as margins, supply volumes and inflation. The forecasts also reflect relevant impact of climate risks such as future commodity prices on cash flows. Goodwill and other intangible assets are disclosed in Section 5.2 of the notes to the financial statements. Climate and biomass acceptability risks are disclosed in the principal risk section of the strategic report.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to the impairment review of goodwill and other intangible assets. We checked the mathematical accuracy of the impairment models and the methodology applied for consistency with the requirements of IAS 36. We evaluated the key assumptions including margins, future commodity prices and inflation rates, and assessed retrospectively whether prior year assumptions were appropriate. With the assistance of our valuation specialists, we evaluated the reasonableness of management's discount rates. We benchmarked the discount rate to comparable companies and considered the underlying assumptions based on our knowledge of the group and its industry We assessed the accuracy of management's cash flow forecasts by comparing historical forecasts with actual cash flows, external industry benchmarks and the impact of any climate change risks. We checked whether projected cash flows were consistent with Board approved forecasts. Furthermore, we performed sensitivity analyses, including the impact of physical and transition climate change risks, as part of our overall evaluation of the forecasts In respect of climate-related risks, we assessed whether key assumptions, such as future commodity prices, relating to the group's principal climate change risks have been incorporated into the group's forecasts. We further considered whether the forecasts and related cash flow sensitivities are consistent with the scenarios applied in the group's Task Force on Climate-Related Financial Disclosures (TCFD). We also assessed the completeness and accuracy of the financial statements' disclosures in relation to the impairment assessments performed.
Key observations	We conclude that the valuation of goodwill and other intangible assets as well as the relevant disclosures are appropriate based on the results of our work.

5.2. Valuation of commodity, inflation and foreign exchange contracts

Key audit matter description	Net losses on derivative contracts amounted to £302.4m (2021: £43.3m), with related derivative assets of £1,218.0m (2021: £1,246.1m) and liabilities of £1,724.8m (2021: £1,504.5m) recognised as at 31 December 2022. The group uses a variety of derivative contracts, including commodity contracts and cross currency swaps to mitigate its exposures to financial risks such as foreign exchange risk and commodity risk. The valuation of derivative contracts is complex and requires judgement such as in the selection of appropriate valuation methodologies and relevant assumptions, including future market prices, credit risk factors, time value of money and spread adjustments. Due to these complexities and the large volume of data used in the valuation, we have identified the risk of error and risk of fraud in this regard. Specifically, this risk has been pinpointed to the valuation of inflation swaps and the application of credit risk data calculations as part of deriving overall fair value estimates for derivative contracts. Furthermore, the group enters into contracts to buy and sell biomass. As disclosed in the critical accounting judgements, these contracts are currently considered to be outside the scope of IFRS 9 on the basis that they are not settleable on net basis. An error in this judgement could lead to excluding material amounts from the consolidated balance sheet. Accordingly, we identified a risk of error in relation to the judgement reached on the accounting for these biomass contracts. Further detail of the key judgements is disclosed in the Audit Committee report section on page 123 and Section 1 on page 183 of the notes to the financial statements. Financial risk management disclosures are set out in Section 7.1 of the notes to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of and tested the operating effectiveness of relevant controls related to the valuation of commodity, inflation and foreign exchange contracts. With the involvement of our financial instrument specialists, we tested management's key judgements and calculations. This included testing a sample of trades undertaken to trade tickets and checking key contractual terms such as volumes and contracted prices. We assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments, and performed independent valuations on a sample of commodity, inflation and foreign exchange contracts. We checked the appropriateness of management's assumptions by benchmarking these to third party sources. We also evaluated the consistency of these assumptions against other relevant areas of the financial statements such as asset impairment. We challenged management's approach and assumptions for assessing fair value adjustments such as credit risk, time value of money and spread adjustments through consideration of third-party data. We challenged the group's assessment and judgement on whether biomass contracts are "net settleable" against the requirement of IFRS 9 and relevant accounting standards and by considering contradictory sources of evidence.
Key observations	The valuation of commodity, inflation and foreign exchange contracts, and the judgement reached on the net settlement of biomass contracts are reasonable, based on the results of our audit. We consider the valuation methodologies used by management to be appropriate and the valuations are within acceptable ranges for all instruments.

Independent Auditor's report to the members of Drax Group plc continued

5.3. Estimation of Customers accrued income

Key audit matter description	The recognition of retail revenue requires an estimation of customer usage between the date of the last billing and year end, which is known as accrued income. Across the Customers division, accrued income at year-end amounted to £342.6m (2021: £153.1m). The method of estimating accrued income is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value attributed to those volumes in the range of tariffs. Therefore, we identified the risk of error and the risk of fraud on the estimation of accrued income. Accrued income is disclosed in Section 3.5 of the notes to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the estimation of accrued income, including the reconciliation of meter readings provided by the energy markets and used by management to estimate the power supplied; and the controls over the price per unit applied in the valuation of certain aspects of accrued income. We agreed the volume data for customer usage of energy in the year used in the calculation to external settlement systems and agreed the volume data in relation to customer billings for the year to internal billing systems to assess for consistency and assess any residual estimation risk. When external market information was not available at the balance sheet date, our data analytics specialists assisted us in testing the group's reconciliation of the volume of power purchased and their calculation of revenue supplied to assess whether accrued income as at 2022 year end was subsequently billed. We compared the unbilled unit pricing by agreeing historical pricing to sample bills, sensitising the pricing to understand the impact of different pricing assumptions. We evaluated the historical accuracy of management's forecasting of accrued income by comparing estimates to final billed and settlement amounts.
Key observations	We consider the estimated accrued income to be appropriate.

5.4. Estimation of expected credit loss provision in Opus Energy

Key audit matter description	The current macro-economic conditions including rising energy bills, increases in the cost of living and rising inflation has increased the rate of credit defaults across several industries. The group is therefore required to make judgements and estimates on expected credit loss provision for trade receivables. Opus Energy is an entity within the Customers' segment whose customers are Small and Medium Enterprises (SMEs) – including retail, entertainment, and hospitality businesses – where the range of judgement that could apply is far broader relative to the other group entities. We therefore identified a risk of error and a risk of fraud on the estimation of expected credit loss provisions in Opus Energy. The group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of debt on an individual account basis using a broad range of indicators and that are specific to the customer. Further detail on the estimation of expected credit loss model is provided in note 3.5 of the financial statements. A credit loss provision of £60.9m (2021: £46.6m) has been recorded at year end. Total Trade receivables were £337.5m (2021: £234.1m) against which a total provision associated with Opus Energy at the balance sheet date amounted to £54.9m (2021: £44.4m).
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls related to the estimation of expected credit losses in line with the requirements of IFRS 9 Financial Instruments. We tested the completeness and accuracy of the data used in the expected credit loss model. With the involvement of our expected credit loss specialists and data analytics specialists, we evaluated the appropriateness of the model parameters and output of the expected credit loss model including its mathematical accuracy. Further we challenged the group's assumptions, including forward-looking assumptions regarding ongoing macro-economic conditions and whether they reflect the lifetime expected credit outcomes for the amount receivable at year end. We challenged the overall reasonableness of the provisions recognised at year end by assessing trends in cash payments, cancellation of direct debits and benchmarking the recorded provision against alternative valuation models, cash collection rates and external valuations. We tested the historical accuracy of management's estimation of expected credit loss provision by comparing estimates to actual write offs.
Key observations	Based on the work performed we concluded that the expected credit loss provision has been appropriately stated.

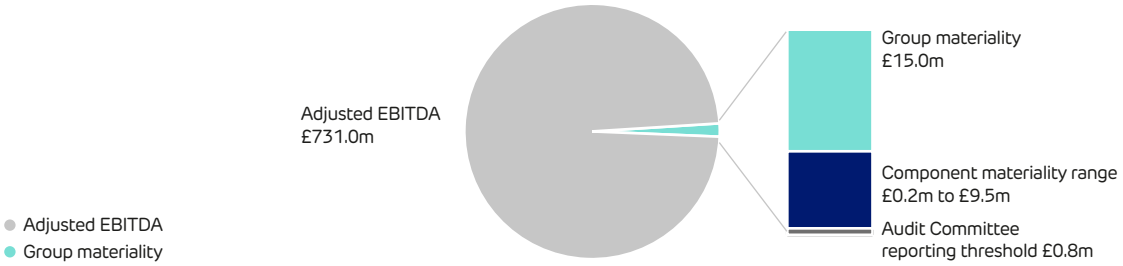
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£15.0m (2021: £11.4m)	£4.2m (2021: £4.0m)
Basis for determining materiality	Approximately 2% of current year's Adjusted EBITDA (2021: 3% of Adjusted EBITDA) and corresponds to 3% of last three year's average Adjusted EBITDA. In determining our materiality for the current year, we have applied a lower factor of 2% (2021: 3%) to the Adjusted EBITDA to reflect the impact of volatility in current macro-economic conditions on current year's results.	0.5% of net assets (2021: 0.5%) capped at 28% (2021: 35%) of the materiality identified for the group.
Rationale for the benchmark applied	Adjusted EBITDA was applied as it is considered to be of particular relevance to users of the financial statements as a key profit-based measure of performance used by the group. This measure allows the underlying profitability of the group's core business activities to be assessed year on year. It excludes fluctuations caused in particular by the remeasurements of derivative contracts and exceptional items, defined as those transactions that, by their nature, do not reflect the trading performance of the group in the period.	Net asset is considered the relevant benchmark for materiality determination due to the principal activity of the parent company as an investment holding entity for the group.



Independent Auditor's report to the members of Drax Group plc continued

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) our risk assessment, including our assessment of the overall control environment and that we consider it appropriate to rely on controls over a number of business processes; b) no significant changes in the nature of the entity's business during the year which would impact on our ability to identify potential misstatements; and c) history of low level of misstatements identified in the previous audits and managements willingness to correct those adjustments.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8m (2021: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group- wide controls, and assessing the risks of material misstatement at the group level. We performed full scope audit work at eight components: Drax Power Limited, Drax Pumped Storage Limited, Drax Smart Generation Holdco Limited, Drax Energy Solutions Limited, Drax Corporate Limited, Drax Group Holdings Limited, Drax Biomass Inc and Opus Energy Limited. Audit of specified account balances was performed at Northern Pellet Operations. These components represent the group's principal business units and account for substantially all of the group's net assets, revenue, and profit before tax.

The group audit was performed by the group audit team in the UK and a component Deloitte team in Canada under the supervision of the Senior Statutory Auditor. The full scope entities are all based in the United Kingdom and audited by the group audit team. Our audit work at all significant component locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £4.2m to £9.5m (2021: £4.0m to £6.0m). Component materiality levels were set based on the size and nature of each component on a range of applicable metrics.

At the group level, we also tested the consolidation process and performed analytical reviews to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

7.2. Our consideration of the control environment

Our audit approach was to place reliance on management's relevant controls over revenue and financial instruments business cycles. As part of our controls testing, we obtained an understanding of and tested controls through a combination of inquiry, observation, inspection, and re-performance.

We also involved our IT specialists in assessing relevant controls over the group's IT systems. Working with IT specialists we obtained an understanding of the IT environment to assess the relevant risks of material misstatement arising from each relevant IT system and the supporting infrastructure technologies based on the role of each application in the group's flow of transactions. For the assessed risks on key IT systems, we obtained an understanding of and tested relevant automated and general IT controls.

7.3. Our consideration of climate-related risks

The group has considered climate change risk and biomass acceptability risk as part of their risk assessment process when considering the principal risks and uncertainties facing the group. This is set out in the strategic report on pages 87 to 90, and Section 3.8 of the notes to the financial statements on page 227. The areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include the valuation of property, plant and equipment, goodwill, and other intangible assets. Our response is highlighted in section. 5.1 above. In addition, we have

- assessed and challenged the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks given the more notable impacts of climate change on the business are expected to arise in the medium to long term.
- challenged how the directors considered climate change in their assessment of going concern and viability based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- involved our Environmental Social and Governance (ESG) specialist in in challenging the group's climate and biomass acceptability principal risk assessments. The ESG specialists were also involved in reviewing the Sustainable Development section of the annual report and assessing TCFD on pages 38 – 43 against the recommendations of the TCFD framework.
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed.
- read the climate risk and biomass acceptability risk disclosures included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

7.4. Working with other auditors

The group audit team are responsible for the scope and direction of the audit process and provide direct oversight, review, and coordination of our component audit teams. The group audit team interacted regularly with the component teams during each stage of the audit and reviewed key working papers. The group audit team maintained continuous and open dialogue with the component teams in addition to holding formal regular meetings to ensure that the group audit team were fully aware of their progress and results of their procedures. The group audit team also sent detailed instructions to the component audit teams and attended audit closing meetings.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non- compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our inquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- the involvement of our internal fraud specialists in planning our response to potential fraud risk factors, in particular through attending engagement team discussions;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit team and relevant internal specialists, including forensics, tax, pensions, IT, valuations, financial instruments and ESG specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Independent Auditor's report to the members of Drax Group plc continued

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of commodity, inflation and foreign exchange contracts, estimation of Customers accrued income and expected credit loss provision in Opus Energy, as well as cut-off of bilateral sales. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context the UK Companies Act, Listing Rules, Pensions legislation, Tax legislation, and Regulations established by regulators in the key markets in which the group operates, including the Office of Gas and Electricity Markets and biomass- related regulations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of commodity, inflation and foreign exchange contracts, estimation of Customers accrued income and estimation of expected credit loss provision in Opus Energy as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains these matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements
- inquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofgem;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focused testing on trades close to the year-end combined with analytical review procedures to assess accuracy and completeness of revenue recognised; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 76 and 77;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 76 and 77;
- the directors' statement on fair, balanced and understandable set out on page 166;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 76 and 77;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 and 77; and
- the section describing the work of the audit committee set out on page 120.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 27 April 2021 to audit the financial statements for the years ending 31 December 2022 and 2023. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2005 to 2022. Our last audit of the group, due to mandatory auditor rotation, will be the year ending 31 December 2023.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Makhan Chahal, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

22 February 2023

Financial statements

Introduction

The Consolidated financial statements provide detailed information about the financial performance (Consolidated income statement and Consolidated statement of comprehensive income), financial position (Consolidated balance sheet), reserves (Consolidated statement of changes in equity), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the Consolidated financial statements provide additional information on the items in the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the Consolidated financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 185 to 189, as well as voluntary information which management believe users of the accounts may find useful, in line with the principles of IFRS.

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the United Kingdom adopted International Accounting Standards (as issued by the UK Endorsement Board) and in conformity with the requirements of the Companies Act 2006.

The Consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction.

At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items measured at historical cost are translated at the date of the transaction using the average monthly exchange rate to the extent that this approximates the rate prevailing on the date the transaction occurred. Non-monetary items that are measured at fair value are translated at the exchange rate at the date when fair value was determined. Foreign exchange gains and losses arising on such translations are recognised in the Consolidated income statement within foreign exchange gains or losses unless they relate to qualifying cash flow hedges. Foreign exchange gains and losses on qualifying cash flow hedges are recognised within the Consolidated statement of comprehensive income, within Other comprehensive income (OCI) and deferred within equity, to the extent the hedges are effective, until the hedged item impacts the Consolidated income statement.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using the exchange rates prevailing at the reporting date. The income and expenditure of such operations are translated into sterling using the average monthly exchange rate to the extent that this approximates the exchange rates prevailing at the date of the transactions. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets, and its results for the year, are recognised in OCI.

Climate change

The impact of climate change has been considered throughout the preparation of the Annual report and accounts. In particular, in the Strategic report the TCFD disclosures contain information on the four recommendations and 11 recommended disclosures of the FCA LR 9.8.6(8). Consideration in respect of the Consolidated financial statements focused on:

- Critical accounting judgements
- Impairment of assets
- Going concern and viability
- Useful economic lives of fixed assets

Further information on these areas can be found in note 3.8 to the Consolidated financial statements.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 4 to 91 of this Annual report and accounts. The current energy market conditions and their impact on the Group are considered in the Financial review on page 20.

In the Viability statement on pages 75 to 76, the Directors state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years based on forecasts and projections that take into account reasonably possible changes in trading performance and other key assumptions. Consequently, the Directors also have a reasonable expectation that the Group will continue in existence for the next 12 months from the date of signing these Consolidated financial statements and have therefore adopted the going concern basis in preparing these Consolidated financial statements.

Basis of consolidation

These Consolidated financial statements incorporate the financial results of the Company and of all its subsidiaries made up to 31 December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control of an entity to the date control ceases. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the Group.

All intra-group assets and liabilities, equity, income, expenses, unrealised profits and cash flows relating to transactions between the members of the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders that are current ownership interests, entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of OCI are attributed to the owners of the Parent Company and to the non-controlling interests. Profit or loss and each component of OCI of the subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See note 4.5 for the accounting policy and further details on the Group's accounting for non-controlling interests.

Joint arrangements are contractual arrangements where two or more parties have joint control over the arrangement. Joint arrangements are classified as either a joint operation or a joint venture based upon an analysis of the rights and obligations of the parties in the normal course of business. If the parties to the joint arrangement have direct rights to the assets, and direct obligations for the liabilities, relating to the arrangement, then it is a joint operation. If the parties to the joint arrangement have rights to the net assets of the arrangement, then it is a joint venture.

The Group currently only has one joint operation and no joint ventures. The Group recognises its direct right to assets, liabilities, revenue and expenses of the joint operation, as well as its share of any jointly entitled assets, liabilities, income and expenditure. These amounts are recognised within the appropriate Consolidated financial statement line items in accordance with the IFRS applicable for that line item.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. This is generally the case where the Group holds between 20% and 50% of the voting rights of an entity.

Associates are accounted for using the equity method. Investments in associates are initially recognised at cost, which includes transaction costs. Goodwill is not separately recognised in relation to associates. Subsequent to initial recognition, the carrying amount of investments in associates is adjusted to recognise the Group's share of after tax profit or loss and OCI of equity-accounted associates, that are recognised in the Consolidated income statement and Consolidated statement of comprehensive income respectively. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. If the carrying amount of an associate reaches £nil, the Group only recognises its share of losses of the associate to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated against the investment to the extent of the Group's percentage ownership in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment. Accounting policies of equity-accounted associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Associates are tested for impairment whenever there are any indicators of impairment. An impairment loss is recognised to the extent that the carrying amount of the investment exceeds its recoverable amount. Impairment losses on associates are recognised within Income from associates in the Consolidated income statement.

Accounting policies

The significant accounting policies for the measurement of an individual item in the Consolidated financial statements are described in the note to the Consolidated financial statements relating to the item concerned (see contents on page 166).

The accounting policies adopted in the preparation of the Consolidated financial statements are consistent with those followed in the preparation of the Group's Consolidated financial statements for the year ended 31 December 2021, except for the change in accounting policy for Software as a Service (SaaS) costs (see Change in accounting policy section below for further details) and the adoption of new standards and amendments effective as of 1 January 2022. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these Consolidated financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the Consolidated financial statements.

Change in accounting policy

In 2021, the IFRS Interpretations Committee (IFRIC) finalised its agenda decision regarding how to account for costs of configuring or customising a supplier's application software in a SaaS arrangement that conveys to the customer the right to receive access to the supplier's application software over the contract term.

The agenda decision concluded that the right to receive access does not provide the customer with a software asset and therefore, the access to the software is a service that the customer receives over the contract term. The agenda decision also concluded that often the configuration and customisation costs do not result in an intangible asset belonging to the customer. Therefore, these costs should be recognised as an expense over the period to which they relate.

In limited circumstances, certain configuration and customisation activities may result in separate assets controlled by the customer. If this is the case the asset should be assessed to determine whether it is separately identifiable and if it meets the recognition criteria of IAS 38.

Any changes resulting from this agenda decision are a change in accounting policy. Assessing the impact of the agenda decision on the Group required detailed analysis of the historical amounts capitalised. The Group has now concluded its analysis on the impact of this agenda decision and has subsequently applied a new accounting policy for SaaS costs, consistent with the agenda decision, from 1 January 2022.

SaaS costs capitalised as intangible assets by the Group at 1 January 2022, and impacted by this change in accounting policy, had a net book value of £5.7 million. As the impact of this change in accounting policy is immaterial, and the new policy has been applied prospectively from 1 January 2022, no restatement of prior periods has been necessary. These assets have been written off in the current period as an exceptional cost (see note 2.7). SaaS costs incurred from 1 January 2022 have been recognised in Operating and administrative expenses.

Financial statements continued

Judgements and estimates

The preparation of these Consolidated financial statements requires judgement to be made in selecting and applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditure. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements which have the most significant effect on the amounts recognised in the Consolidated financial statements, and the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below. Further detail, including sensitivity analyses where appropriate for the key estimates and assumptions, is included in the related notes.

Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the Consolidated financial statements are set out below.

Certain remeasurements and exceptional items

Each year management confirms the judgements made regarding transactions to exclude from the Adjusted results of the Group, as described under Alternative performance measures below. The judgement as to whether a transaction or group of transactions should or should not be classified as a certain remeasurement or an exceptional item can have a significant impact on the Adjusted results of the Group. An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee as set out on page 120.

See note 2.7 on page 203

Accounting for biomass purchase and sale contracts

The Group buys and sells biomass for operational requirements in its Pellet Production and Generation segments. The Group's risk management policies also permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain circumstances. As such, the Group undertook an assessment of whether contracts it holds to buy and sell biomass are within the scope of IFRS 9. If the contracts were deemed to be within the scope of IFRS 9, this would result in these contracts being recognised at fair value as derivative financial instruments from inception.

The Group assessed both biomass purchase and sale contracts and concluded that the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9. The Group concluded this due to the contractual terms having no net settlement provisions and the highly illiquid nature of the biomass market meaning contracts cannot be readily converted into cash. The lack of an active spot market means market participants cannot readily seek to make trading profits from short-term price fluctuations as prices and contracts are negotiated bilaterally with no active market price and no guarantee there will be a willing buyer or seller to trade with. Accordingly, biomass contracts are not recognised as derivative assets or liabilities in the Consolidated balance sheet prior to delivery, consistent with the accounting in prior years.

Had the Group concluded biomass contracts were within the scope of IFRS 9, a £1 per tonne increase or decrease in the market price of biomass purchases would result in a £20.5 million fair value gain or loss respectively being recognised. The Group continues to assess developments in the biomass market on an ongoing basis to identify any impact on this assessment.

Capitalisation of development project costs

As the Group executes its strategy, as outlined on page 16, significant investment is likely to be required in large development projects, including bioenergy carbon capture and storage in the UK (UK BECCS) and the development of Cruachan 2. In accounting for this expenditure, judgements are required to determine whether these costs meet the criteria to be capitalised, or whether they should be expensed as incurred. The capitalisation of costs under IAS 16 and IAS 38 are based around the expectation that it is probable that economic benefit will flow to the Group as a result of the costs incurred to bring the asset into working condition. This judgement can be complex as it is dependent on several qualitative factors, including technological feasibility, economic feasibility and availability of finance. At 31 December 2022 the Group had capitalised £24.5 million relating to the UK BECCS development project, including £19.1 million in 2022. Had it been judged that the criteria for capitalisation had not yet been met, these costs would have been expensed as incurred. The Group has not capitalised any costs in relation to Cruachan 2 or any global BECCS projects as the recognition criteria of IAS 16 have not been judged to have been met.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year. These are the items where actual outcomes in the next 12 months could vary materially from the estimates made in determining the reported amount of an asset or liability within the Consolidated financial statements.

Property, plant and equipment

Property, plant and equipment at Drax Power Station is depreciated on a straight-line basis over its useful economic life (UEL). UELs are estimated based on past experience, anticipated future replacement cycles and other available evidence and are reviewed at least annually.

Given the continued focus on climate change, renewable sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the UK Government's net zero strategy continues to evolve and become clearer, particularly in relation to UK BECCS, the Group will continue to assess any potential impact of these developments on UELs in relation to Drax Power Station. Once certainty over UK BECCS at Drax Power Station is achieved, UELs will be reassessed. The net book value of fixed assets being depreciated at Drax Power Station at 31 December 2022 is £911.5 million and depreciation on these assets in the year, based on the UELs disclosed in note 3.1, was £74.6 million. If the UELs of assets, that are limited to the current assumed end of station life of 2039, were to increase by ten years the impact on the depreciation charge for the year would be a reduction of approximately £14.2 million.

See note 3.1 on page 211

Pension liabilities

The Group records a net surplus or liability in its Consolidated balance sheet for the fair value of assets held by the pension schemes, less its obligation to provide benefits under approved defined benefit pension schemes. The actuarial valuations of the schemes' liabilities are performed annually by an independent qualified actuary and contain assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. Three of the key estimates within the valuation are the discount and inflation rates, and life expectancy. Sensitivities in the valuations are discussed in note 6.3. The value of the pension surplus recognised by the Group at 31 December 2022 in relation to the DPG ESPS scheme is £32.4 million and the value of the pension surplus recognised in relation to the Drax 2019 scheme is £6.1 million.

See note 6.3 on page 245

Derivative valuations

Derivative financial instruments are recorded in the Group's Consolidated balance sheet at fair value. The assessment of fair value is derived in part by reference to a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and published prices from third-party sources. However, any forward curve is based, at least in part, upon assumptions about future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases. More detail on the assumptions used in the assessment of fair values is provided in note 7.1, and a range of sensitivities is provided in note 7.2.

Alternative performance measures (APMs)

The Group uses APMs throughout the Annual report and accounts that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined by IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Defined below are the key APMs used by the Board to assess performance. The APMs glossary table on page 287 provides details of all APMs used, including the APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total results column on the face of the Consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total results in arriving at the Adjusted results for the year. The Group's Adjusted results are consistent with the way Executive management and the Board assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the Consolidated financial statements in evaluating the Group's trading performance and performance against strategic objectives.

Adjusted basic earnings per share

Adjusted basic earnings per share (Adjusted basic EPS) is Adjusted profit from continuing and discontinued operations attributable to the owners of the Parent Company divided by the weighted average number of shares outstanding. This is the same denominator used when calculating basic EPS. This metric is used in discussions with the investor community.

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA excludes gains or losses in disposal of fixed assets, income from associates and amounts directly attributable to non-controlling interests. Adjusted EBITDA is the primary measure used by Executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of the Group's operations.

Exceptional items and certain remeasurements

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent, and commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy.

There has been no change to the policy during the year ended 31 December 2022. During the year, the application guidance for this policy was enhanced, in particular setting de minimis thresholds for classifying items as exceptional. These enhancements would not have materially changed the transactions classified as exceptional in the comparative period contained within these Consolidated financial statements.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting (or hedge accounting is not effective) which, under IFRS, are recorded in revenue, cost of sales, interest payable and similar charges or foreign exchange gains or losses. Management believes adjusting for fair value gains and losses recognised on derivative contracts provides readers of the accounts with useful information as this removes the volatility caused by movements in market prices over the life of the derivative. The Group regards all of its forward contracting activity to represent economic hedges and, therefore, the contracted price at delivery or maturity is relevant to the Group and its performance, rather than how the contracted price compares to the prevailing market price, as the Group is not seeking to make trading profits on these contracts through market price movements.

The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of associated financial derivative contracts (such as forward foreign currency purchases), in Adjusted results at the time the transaction takes place.

See note 2.7 on page 203

Financial statements continued

Net debt

The Group defines Net debt as total borrowings less cash and cash equivalents. Borrowings denominated in foreign currencies, and where the Group has entered into hedging arrangements associated with this currency exposure, are translated at the hedged rate. This is to take into account the effect of financial instruments entered into to hedge movements in, for example, foreign exchange rates in relation to debt principal repayments. Borrowings that have no hedging instruments attributed to them are translated at the closing rate. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.2) but excludes other financial liabilities such as pension obligations (see note 6.3), trade and other payables (see note 3.5) and lease liabilities calculated in accordance with IFRS 16 (see note 3.2). Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests.

As noted above, the Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of Net debt is also consistent with the Group's covenant reporting requirements.

Net debt is a key metric used by debt rating agencies and the investor community as a measure of liquidity and the ability of the Group to manage its current obligations.

Prior to 2022, the Group's definition of Net debt did not include translating borrowings denominated in foreign currencies, for which the Group had entered into hedging arrangements associated with the currency exposure at the hedged rate. The impact of relevant hedging instruments was presented alongside the Net debt figures rather than being included in the definition.

In 2022, the Group has updated its definition of Net debt, which now includes translating borrowings at the hedged rate. This is deemed to provide more useful information and to better reflect the economic reality, as it includes the sterling value of borrowings that will ultimately be settled.

The table below shows Net debt calculated using both the current and prior year definitions:

	Year ended 31 December	
	2022 £m	2021 £m
Current definition	**1,206.0**	1,108.0
Previous definition	**1,203.6**	1,043.6

Net debt to Adjusted EBITDA ratio

This metric is the ratio of Net debt to Adjusted EBITDA, expressed as a multiple. The Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times. The Group's 2.0 times target has not changed as a result of the update in the definition of Net debt described above, nor has the Group's expectations in regard to meeting this target.

The Net debt to Adjusted EBITDA ratio gives an indication of the size of the Group's Net debt in relation to its trading performance.

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2022 Adjusted results[1] £m	Exceptional items and certain remeasurements £m	Total results £m	Year ended 31 December 2021 Adjusted results[1] £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	2.2	**8,159.2**	**(383.9)**	**7,775.3**	5,173.9	(85.9)	5,088.0
Cost of sales		**(6,837.7)**	**85.7**	**(6,752.0)**	(4,331.1)	134.3	(4,196.8)
Gross profit		**1,321.5**	**(298.2)**	**1,023.3**	842.8	48.4	891.2
Operating and administrative expenses	2.3	**(542.8)**	**–**	**(542.8)**	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets		**(48.0)**	**–**	**(48.0)**	(16.3)	–	(16.3)
Depreciation	3.1	**(208.0)**	**–**	**(208.0)**	(164.5)	(0.5)	(165.0)
Amortisation	5.2	**(31.4)**	**–**	**(31.4)**	(34.4)	–	(34.4)
Impairment of non-current assets	2.7	**(16.6)**	**(24.9)**	**(41.5)**	–	–	–
Other losses		**(5.8)**	**–**	**(5.8)**	(9.4)	–	(9.4)
Income from associates		**0.5**	**–**	**0.5**	0.3	–	0.3
Operating profit/(loss)		**469.4**	**(323.1)**	**146.3**	170.1	26.4	196.5
Foreign exchange gains/(losses)	2.5	**14.8**	**(3.8)**	**11.0**	0.9	(5.1)	(4.2)
Interest payable and similar charges	2.5	**(83.1)**	**(0.4)**	**(83.5)**	(70.9)	(0.3)	(71.2)
Interest receivable	2.5	**4.3**	**–**	**4.3**	0.4	–	0.4
Profit/(loss) before tax		**405.4**	**(327.3)**	**78.1**	100.5	21.0	121.5
Tax:							
– Before effect of changes in tax rate	2.6	**(64.5)**	**62.2**	**(2.3)**	(11.7)	(5.7)	(17.4)
– Effect of changes in tax rate	2.6	**(2.9)**	**9.6**	**6.7**	(0.4)	(48.6)	(49.0)
Total tax (charge)/credit		**(67.4)**	**71.8**	**4.4**	(12.1)	(54.3)	(66.4)
Net profit/(loss) from continuing operations[2]		**338.0**	**(255.5)**	**82.5**	88.4	(33.3)	55.1
Net profit from discontinued operations	5.4	**–**	**–**	**–**	16.7	7.4	24.1
Profit/(loss) for the period		**338.0**	**(255.5)**	**82.5**	105.1	(25.9)	79.2
Attributable to:							
Owners of the Parent Company		**340.6**	**(255.5)**	**85.1**	105.6	(25.9)	79.7
Non-controlling interests		**(2.6)**	**–**	**(2.6)**	(0.5)	–	(0.5)
Earnings per share:		**Pence**		**Pence**	Pence		Pence
For net profit from continuing operations attributable to the owners of the Parent Company							
– Basic	2.8	**85.1**		**21.3**	22.3		13.9
– Diluted	2.8	**82.2**		**20.5**	21.5		13.5
For net profit for the period attributable to the owners of the Parent Company							
– Basic	2.8	**85.1**		**21.3**	26.5		20.0
– Diluted	2.8	**82.2**		**20.5**	25.6		19.3

Notes:
(1) Adjusted results are stated after adjusting for exceptional items (including impairment of non-current assets, acquisition costs and restructuring costs), and certain remeasurements. See note 2.7 for further details.
(2) The 2022 Adjusted net profit from continuing operations of £338.0 million (2021: £88.4 million) is inclusive of £(2.6) million (2021: £(0.5) million) attributable to non-controlling interests.

Section 1: Consolidated financial statements continued

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2022 £m	2021 £m
Profit for the period		**82.5**	79.2
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit pension scheme	6.3	**(24.4)**	30.7
Deferred tax on remeasurement of defined benefit pension scheme	2.6	**6.1**	(7.2)
Deferred tax on share-based payments	2.6	**–**	5.4
Net fair value (losses)/gains on cost of hedging	7.4	**(19.0)**	17.3
Deferred tax on cost of hedging	2.6	**2.2**	(7.7)
Net fair value gains on cash flow hedges	7.3	**205.5**	1.1
Deferred tax on cash flow hedges	2.6	**(49.5)**	3.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to the owner of the Parent Company	4.4	**42.4**	8.7
Exchange differences on translation of foreign operations attributable to non-controlling interests		**3.4**	(2.6)
Net fair value losses on cash flow hedges	7.3	**(593.1)**	(182.0)
Net gains on cash flow hedges reclassified to profit or loss	7.3	**432.9**	12.6
Deferred tax on cash flow hedges	2.6	**43.9**	37.6
Other comprehensive income/(expense)		**50.4**	(82.5)
Total comprehensive income/(expense) for the year		**132.9**	(3.3)
Attributable to:			
Owners of the Parent Company		**132.1**	(0.2)
Non-controlling interests		**0.8**	(3.1)

Consolidated balance sheet

	Notes	As at 31 December 2022 £m	2021 £m
Assets			
Non-current assets			
Goodwill	5.2	**424.2**	416.3
Intangible assets	5.2	**142.3**	188.6
Property, plant and equipment	3.1	**2,388.0**	2,310.7
Right-of-use assets	3.2	**138.3**	119.8
Investments		**6.9**	5.5
Retirement benefit surplus	6.3	**38.5**	48.9
Deferred tax assets	2.6	**37.3**	28.7
Derivative financial instruments	7.1	**421.7**	357.5
		3,597.2	3,476.0
Current assets			
Inventories	3.4	**348.1**	199.1
Renewable certificate assets	3.3	**187.8**	301.4
Trade and other receivables and contract assets	3.5	**1,227.0**	641.9
Derivative financial instruments	7.1	**796.3**	888.6
Cash and cash equivalents	4.1	**238.0**	317.4
		2,797.2	2,348.4
Liabilities			
Current liabilities			
Trade and other payables and contract liabilities	3.7	**(1,527.9)**	(1,211.1)
Lease liabilities	3.2	**(22.7)**	(15.1)
Current tax liabilities		**(23.3)**	(3.4)
Borrowings	4.2	**(44.3)**	(40.6)
Derivative financial instruments	7.1	**(989.4)**	(962.7)
		(2,607.6)	(2,232.9)
Net current assets		**189.6**	115.5
Non-current liabilities			
Borrowings	4.2	**(1,396.6)**	(1,320.4)
Lease liabilities	3.2	**(130.4)**	(110.8)
Provisions	5.3	**(58.6)**	(86.4)
Deferred tax liabilities	2.6	**(141.6)**	(225.3)
Derivative financial instruments	7.1	**(735.4)**	(541.8)
		(2,462.6)	(2,284.7)
Net assets		**1,324.2**	1,306.8
Shareholders' equity			
Issued equity	4.4	**47.9**	47.7
Share premium	4.4	**433.3**	432.2
Hedge reserve	7.3	**(152.0)**	(177.4)
Cost of hedging reserve	7.4	**40.1**	78.5
Other reserves	4.4	**747.7**	706.0
Retained profits	2.10	**193.8**	198.3
Total equity attributable to the owners of the Parent Company		**1,310.8**	1,285.3
Non-controlling interests	4.5	**13.4**	21.5
Total shareholders' equity		**1,324.2**	1,306.8

The Consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 22 February 2023.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Section 1: Consolidated financial statements continued

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2021	**47.5**	**430.0**	**(76.0)**	**87.2**	**697.3**	**153.4**	**–**	**1,339.4**
Profit/(loss) for the year	–	–	–	–	–	79.7	(0.5)	79.2
Other comprehensive (expense)/income	–	–	(127.1)	9.6	8.7	28.9	(2.6)	(82.5)
Total comprehensive (expense)/income for the year	**–**	**–**	**(127.1)**	**9.6**	**8.7**	**108.6**	**(3.1)**	**(3.3)**
Equity dividends paid (note 2.9)	–	–	–	–	–	(70.9)	–	(70.9)
Issue of share capital (note 4.4)	0.2	2.2	–	–	–	–	–	2.4
Acquisition of subsidiary with non-controlling interests (note 5.1)	–	–	–	–	–	–	39.6	39.6
Contributions from non-controlling interests	–	–	–	–	–	–	6.5	6.5
Acquisition of non-controlling interests without a change in control (note 4.5)	–	–	–	–	–	(0.2)	(21.5)	(21.7)
Total transactions with the owners in their capacity as owner	**0.2**	**2.2**	**–**	**–**	**–**	**(71.1)**	**24.6**	**(44.1)**
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	33.2	–	–	–	–	33.2
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	(7.5)	–	–	–	–	(7.5)
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(23.7)	–	–	–	(23.7)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	5.4	–	–	–	5.4
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	7.4	–	7.4
At 1 January 2022	**47.7**	**432.2**	**(177.4)**	**78.5**	**706.0**	**198.3**	**21.5**	**1,306.8**
Profit/(loss) for the year	–	–	–	–	–	85.1	(2.6)	82.5
Other comprehensive income/(expense)	–	–	39.7	(16.8)	42.4	(18.3)	3.4	50.4
Total comprehensive income/(expense) for the year	**–**	**–**	**39.7**	**(16.8)**	**42.4**	**66.8**	**0.8**	**132.9**
Equity dividends paid (note 2.9)	–	–	–	–	–	(78.9)	–	(78.9)
Issue of share capital (note 4.4)	0.2	1.1	–	–	–	–	–	1.3
Contributions from non-controlling interests	–	–	–	–	–	–	1.3	1.3
Acquisition of non-controlling interests without a change in control (note 4.5)	–	–	–	–	(0.7)	(9.3)	(10.2)	(20.2)
Total transactions with the owners in their capacity as owner	**0.2**	**1.1**	**–**	**–**	**(0.7)**	**(88.2)**	**(8.9)**	**(96.5)**
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	(19.1)	–	–	–	–	(19.1)
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	4.8	–	–	–	–	4.8
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(28.8)	–	–	–	(28.8)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	7.2	–	–	–	7.2
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	9.5	–	9.5
Deferred tax on share-based payments released directly from equity (note 2.6)	–	–	–	–	–	7.4	–	7.4
At 31 December 2022	**47.9**	**433.3**	**(152.0)**	**40.1**	**747.7**	**193.8**	**13.4**	**1,324.2**

Consolidated cash flow statement

	Notes	Year ended 31 December 2022 £m	2021 £m
Cash generated from operations	4.3	**320.3**	354.5
Income taxes (paid)/refunded		**(38.7)**	12.4
Interest paid		**(77.2)**	(60.5)
Interest received		**3.3**	0.1
Net cash from operating activities		**207.7**	306.5
Made up of:			
Net cash from continuing operating activities		**207.7**	322.9
Net cash from discontinued operating activities		**–**	(16.4)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(163.9)**	(191.0)
Purchases of intangible assets		**(10.8)**	(18.7)
Proceeds from the sale of property, plant and equipment		**1.6**	0.7
Acquisition of businesses net of cash acquired	5.1	**(7.6)**	(203.5)
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		**–**	183.7
Net cash used in investing activities		**(180.7)**	(228.8)
Made up of:			
Net cash used in continuing investing activities		**(180.7)**	(412.5)
Net cash used in discontinued investing activities		**–**	183.7
Cash flows from financing activities			
Equity dividends paid	2.9	**(78.9)**	(70.9)
Contributions from non-controlling interests		**1.3**	6.5
Acquisition of non-controlling interests without a change in control		**(19.6)**	(21.5)
Proceeds from issue of share capital		**1.2**	2.4
Draw down of facilities	4.2	**188.5**	302.6
Repayment of facilities	4.2	**(186.4)**	(256.3)
Payment of principal of lease liabilities		**(18.0)**	(13.2)
Net cash absorbed by financing activities		**(111.9)**	(50.4)
Made up of:			
Net cash absorbed by continuing financing activities		**(111.9)**	(50.4)
Net cash absorbed by discontinued financing activities		**–**	–
Net (decrease)/increase in cash and cash equivalents		**(84.9)**	27.3
Cash and cash equivalents at 1 January		**317.4**	289.8
Effect of changes in foreign exchange rates		**5.5**	0.3
Cash and cash equivalents at 31 December	4.1	**238.0**	317.4

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 4.3. Further details of the cash flow impact of exceptional items can be found in note 2.7.

Section 2: Financial performance

The financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (see note 2.1), analysis of certain Consolidated income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total results, dividends and retained profits (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year can be found in the Strategic report on pages 1 to 91, with particular reference to key transactions and market conditions that have affected the results.

2.1 Segmental reporting

Reportable segments are presented in a manner consistent with internal reporting provided to the chief operating decision maker which is considered to be the Board. The Group is organised into three businesses, with a dedicated management team for each. Central corporate and commercial functions provide certain specialist and shared services, including optimisation of the Group's positions. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

- Pellet Production: production and subsequent sale of biomass pellets at the Group's processing facilities in North America;
- Generation: power generation activities in the UK; and
- Customers: supply of electricity and gas to non-domestic customers in the UK.

Operating costs are allocated to the reportable segments to the extent they are directly attributable to the activities of that segment. Central corporate function costs that are not directly attributable to the activities of a reportable segment are included within Innovation, capital projects and other costs. Innovation, capital projects and other costs is not a reportable segment as it does not earn revenues.

When defining gross profit within the Consolidated financial statements, the Group follows the principal trading considerations applied by its Pellet Production, Generation and Customers businesses when making a sale. In respect of the Pellet Production business, this reflects the direct costs of production, being fibre, fuel and drying costs, direct freight and port costs, or third-party pellet purchases. In respect of Generation, this reflects the direct costs of the commodities to generate the power and the relevant grid connection costs that arise. In respect of Customers, this reflects the direct costs of supply, being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms.

Accordingly, cost of sales excludes indirect overheads and staff costs (presented within operating and administrative expenses), and depreciation (presented separately on the face of the Consolidated income statement). See note 3.4 for details of the costs included in inventories.

Seasonality of trading

The primary activities of the Group are affected by seasonality. Demand in the UK for electricity and gas is typically higher in the winter period (October to March) when temperatures are lower, and thus drives higher prices and higher generation. Conversely, demand is typically lower in the summer months (April to September) when temperatures are milder, and therefore prices are generally lower.

This trend is experienced by all of the Group's UK-based businesses, as they operate within the UK electricity and gas markets. It is most notable within the Generation business due to its scale and the flexible operation of its thermal generation plant.

The Pellet Production business incurs certain costs that are higher in winter months due to the impact of weather conditions, such as fibre drying costs and heating costs. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations as a result of seasonality by regular production and dispatch schedules under its contracts with customers, both intra-group and externally.

2.1 Segmental reporting continued

Segment revenues and results

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2022. Revenue for each segment is split between sales to external parties and inter-segment sales. Inter-segment sales are eliminated in the intra-group eliminations column along with any adjustment required for unrealised profits.

The financial information in these tables is comprised solely of results from continuing operations. There were no amounts attributable to discontinued operations in the year ended 31 December 2022. Adjusted EBITDA by reportable segment is presented in note 2.7.

	Year ended 31 December 2022							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue								
External sales	377.2	3,638.9	4,143.1	–	–	8,159.2	(383.9)	7,775.3
Inter-segment sales	425.4	3,719.3	–	–	(4,144.7)	–	–	–
Total revenue	802.6	7,358.2	4,143.1	–	(4,144.7)	8,159.2	(383.9)	7,775.3
Cost of sales	(501.9)	(6,479.2)	(3,985.0)	–	4,128.4	(6,837.7)	85.7	(6,752.0)
Segment gross profit/(loss)	300.7	879.0	158.1	–	(16.3)	1,321.5	(298.2)	1,023.3
Operating and administrative expenses	(167.3)	(183.5)	(84.3)	(113.6)	5.9	(542.8)	–	(542.8)
Impairment losses on financial assets	–	–	(48.0)	–	–	(48.0)	–	(48.0)
Depreciation and amortisation	(119.9)	(98.6)	(25.5)	(3.3)	7.9	(239.4)	–	(239.4)
Impairment of non-current assets	–	(16.6)	–	–	–	(16.6)	(24.9)	(41.5)
Other losses	(2.0)	(3.8)	–	–	–	(5.8)	–	(5.8)
Income from associates	0.5	–	–	–	–	0.5	–	0.5
Operating profit/(loss)	12.0	576.5	0.3	(116.9)	(2.5)	469.4	(323.1)	146.3

Further information on the main revenue streams of each segment is presented in note 2.2.

The impact of exceptional items and certain remeasurements is set out in note 2.7.

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021:

	Year ended 31 December 2021							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue								
External sales	163.1	2,651.2	2,359.6	–	–	5,173.9	(85.9)	5,088.0
Inter-segment sales	286.7	2,031.1	–	–	(2,317.8)	–	–	–
Total revenue	449.8	4,682.3	2,359.6	–	(2,317.8)	5,173.9	(85.9)	5,088.0
Cost of sales	(267.0)	(4,131.9)	(2,255.9)	–	2,323.7	(4,331.1)	134.3	(4,196.8)
Segment gross profit	182.8	550.4	103.7	–	5.9	842.8	48.4	891.2
Operating and administrative expenses	(96.9)	(198.9)	(81.7)	(70.9)	–	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	–	–	(16.3)	–	–	(16.3)	–	(16.3)
Depreciation and amortisation	(61.4)	(103.4)	(30.5)	(3.6)	–	(198.9)	(0.5)	(199.4)
Other losses	(1.0)	(7.8)	(0.4)	(0.2)	–	(9.4)	–	(9.4)
Income from associates	0.3	–	–	–	–	0.3	–	0.3
Operating profit/(loss)	23.8	240.3	(25.2)	(74.7)	5.9	170.1	26.4	196.5

Adjusted operating profit from discontinued operations for the year ended 31 December 2021 was £20.3 million. This amount was attributable entirely to the Generation segment and is described in further detail in note 5.4.

The accounting policies applied for the purpose of measuring the reportable segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Consolidated financial statements.

Section 2: Financial performance continued

2.1 Segmental reporting continued

Capital expenditure by reportable segment

Assets and working capital are monitored on a consolidated basis; however, capital expenditure is monitored by reportable segment.

	Year ended 31 December			
	Additions to intangible assets		Additions to property, plant and equipment	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Pellet Production	**–**	8.2	**66.0**	108.6
Generation	**2.8**	3.4	**171.5**	103.2
Customers	**2.3**	8.9	**0.3**	0.1
Innovation, capital projects and other	**4.3**	1.8	**8.2**	3.6
Total	**9.4**	22.3	**246.0**	215.5

Total cash outflows in relation to capital expenditure during the year for continuing operations were £174.7 million (2021: £209.7 million). In 2022, the cash outflow in relation to property, plant and equipment is lower than the cost capitalised in property, plant and equipment (see note 3.1) predominantly as a result of £64.6 million (2021: £nil) of deferred letters of credits issued in relation to the construction of the OCGT assets.

Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2022, the Pellet Production segment sold biomass pellets and provided associated services with a total value of £425.4 million (2021: £286.7 million) to the Generation segment and the Generation segment sold electricity, gas and renewable energy certificates with a total value of £3,719.3 million (2021: £2,031.1 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

Major customers

There was no individual customer, in either the current or previous financial year, that represented 10% or more of total revenue.

Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the entity's country of domicile. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

The Group's revenue and non-current assets for the Generation and Customers segments are all UK based. The Group's Pellet Production segment has third-party pellet sales to both the UK and other locations around the world. The Pellet Production segment's non-current assets are located in North America, in both Canada and the US.

	Revenue from continuing operations (based on location of customer)	
	31 December 2022 £m	31 December 2021 £m
North America (Canada and US)	**10.6**	11.5
Europe	**27.6**	39.1
Asia	**275.4**	93.0
UK	**7,461.7**	4,944.4
Total	**7,775.3**	5,088.0

	Non-current assets[1] (based on asset's location)	
	31 December 2022 £m	31 December 2021 £m
Canada	**542.6**	513.6
US	**502.6**	473.8
UK	**2,054.5**	2,053.5
Total	**3,099.7**	3,040.9

(1) Non-current assets comprise goodwill, intangible assets, property, plant and equipment, right-of-use assets and investments.

2.2 Revenue

The majority of the Group's revenue is within the scope of IFRS 15. The other sources of the Group's revenue outside the scope of IFRS 15 comprise certain remeasurements, amounts reclassified to revenue for gains and losses on UK CPI inflation swaps and income from the Government's Energy Bill Relief Scheme (EBRS). See note 2.7 for further details of certain remeasurements and note 7.2 for inflation risk management.

	Year ended 31 December 2022			Year ended 31 December 2021		
	Adjusted results £m	**Exceptional items and certain remeasurements £m**	**Total results £m**	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue from contracts with customers	**7,882.5**	**–**	**7,882.5**	5,170.3	–	5,170.3
Other revenue	**276.7**	**(383.9)**	**(107.2)**	3.6	(85.9)	(82.3)
Total revenue	**8,159.2**	**(383.9)**	**7,775.3**	**5,173.9**	**(85.9)**	**5,088.0**

Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excludes transactions between Group companies. Revenue is presented gross in the Consolidated income statement when the Group controls the specified good or service prior to the transfer to the customer.

A summary of the Group's principal revenue streams, along with the nature and timing of performance obligations, payment terms, methods of recognising revenue, and any estimation uncertainties, is given in the table below. Further details on significant elements of revenue, principally how the Contract for Difference (CfD) and Renewable Obligation (RO) schemes operate and the related accounting, are provided below the table.

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
Pellet sales (Pellet Production)	The Group produces biomass pellets which are sold to external customers. Customers generally obtain control of the pellets at the point the pellets are loaded onto the shipping vessel for freight on board (FOB) sales. Where freight is also arranged for the customer, these sales are known as Cost, insurance and freight (CIF) sales. The freight component is considered a separate performance obligation. Invoices are raised in line with contractual terms and are usually payable within four-10 days.	Revenue is recognised at the point that the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price of the pellets. For CIF sales, revenue for the freight portion is recognised over the period the vessel sails.
Electricity sales (Generation)	The Group's Generation business has contracts for wholesale electricity sales. Performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have passed to the customer at the point that the electricity has been supplied. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied. Invoices are raised in line with the Grid Trade Master Agreement (GTMA) contractual terms and are payable on the fifth banking day following the date of invoice.	Revenues are measured based upon metered output at rates specified under contract terms or prevailing market rates as applicable. These are recognised under the output method, whereby revenue is recognised based on the value transferred to the customer.
Renewable certificate sales (Generation)	Renewable Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origins (REGOs) are sold to counterparties at a point in time. ROCs sold to optimise working capital are invoiced in line with contractual terms and are usually payable within two days. Invoices for ROC sales to third parties are raised when the ROCs are transferred, typically four-five months following the end of the compliance period in which they were generated. Invoices are usually payable within seven days.	External ROC and REGO sales are recognised at the point the relevant certificates are transferred to the counterparty. See below for further details.

Section 2: Financial performance continued

2.2 Revenue continued

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
CfD income/payment (Generation)	The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. Invoices are raised seven days following the date of supply and are settled within 10-28 days.	The Group recognises the income or costs arising from the CfD in the Consolidated income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due. See below for further details.
Ancillary services (Generation)	Ancillary services refers to the provision of a range of system support services to National Grid. Most contracts are for the delivery of a specific service either continually or on an ad-hoc basis over a period of time. Invoices are raised and subsequently settled in line with National Grid Company Ancillary Services settlement calendar, typically monthly.	Revenue is recognised by reference to the stage of completion of the contractual performance obligations, which are calculated by reference to the amount of the contract term that has elapsed. Depending on contract terms, this approach may require judgement in estimating probable future outcomes.
Other income (All segments)	Other income is derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) or the provision of services. The customer obtains control typically at the point of delivery to their premises or upon collection.	Revenue is recognised at the point the control of the goods is transferred to the customer.
Electricity and gas sales (Customers)	The Group's Customers business sells electricity and gas directly to business customers. Energy supplied is measured based upon metered consumption and contractual rates. The Customers business also has long-term contracts for the sale of electricity and gas, which are deemed as being satisfied over time in line with the progress of the contracts. Invoices are raised in line with contractual terms. For small and medium-sized enterprise (SME) customers, payment is generally due within 10-14 days. For Industrial and Commercial (I&C) customers, payment is generally due between 28-90 days.	Revenue is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the amounts receivable are expected to be recovered. Where supply has taken place but has not yet been measured or billed, revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements. Where contracts for the sale of electricity and gas are held, revenue is recognised in line with the progress of the contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price contracts and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can vary, therefore actual outcomes may vary from initial estimates.
EBRS income (Customers)	The UK Government introduced the EBRS, running from 1 October 2022 to 31 March 2023. Energy supplied to non-domestic customers in this period will have a discount applied for the customer under the scheme to cap their energy tariff. The Customers business is claiming this discount back from the Government. Payment is due 10 days post submission of a claim, which typically occurs monthly.	The discounted price of electricity and gas supplied under the EBRS is recognised in revenue as it is supplied. The discount amount claimed back from the UK Government is recognised within revenue over the same period as the underlying discounted revenue it relates to is recognised. The revenue received from the UK Government is included within EBRS income in the table on page 192. The Group does not recognise any additional revenue from the scheme than it would have done if it were not introduced.

2.2 Revenue continued

Renewable certificate sales

The generation and sale of renewable certificates, primarily ROCs and REGOs, is a key driver of the Group's financial performance.

The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2022 the Group is operating in CP21.

To meet its obligations a supplier can either submit ROCs or pay the buy-out price at the end of the CP. The buy-out price rises annually in line with the UK Retail Price Index (RPI). The buy-out price for CP21 is £52.88 (2021: CP20 £50.80). ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the recycle fund, which is distributed on a pro-rata basis to the suppliers who presented ROCs during a CP.

The financial benefit of a ROC recognised in the Consolidated income statement at the point of generation is comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group also made sales and related purchases of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £604.5 million of such sales (2021: £339.8 million), with a similar value reflected in cost of sales.

REGOs are certificates that enable suppliers to prove that energy supplied to their customers came from a renewable source. One REGO is issued to a generator for every MWh of renewable energy they generate.

See note 3.3 for further details of ROCs and REGOs generated and sold by the Generation business and those utilised by the Customers business during the year.

CfD income/payment

The payment is calculated by reference to a strike price per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2022 was £126.37 per MWh (2021: £118.54).

When market prices (based on average traded prices in the preceding season) are above or below the strike price, the Group makes an additional payment to or receives additional income from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the relevant generating unit. Such payments are in addition to amounts received from the sale of the associated power in the wholesale market.

Gas sales

To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Customers business. Having already ceased acquiring new gas customers, following internal processes and a regulatory driven 60-day grace period, no renewal contracts will be offered after May 2023. It is anticipated that the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Section 2: Financial performance continued

2.2 Revenue continued

Further analysis of revenue for the year ended 31 December 2022 is provided in the table below:

	Year ended 31 December 2022		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	369.3	425.2	794.5
Other income	7.9	0.2	8.1
Total Pellet Production	377.2	425.4	802.6
Generation			
Electricity sales	2,633.1	3,293.3	5,926.4
Renewable certificate sales	851.5	426.0	1,277.5
CfD payment	(45.7)	–	(45.7)
Ancillary services	73.0	–	73.0
Other income	127.0	–	127.0
Total Generation	3,638.9	3,719.3	7,358.2
Customers			
Electricity and gas sales	3,853.1	–	3,853.1
EBRS income	289.2	–	289.2
Other income	0.8	–	0.8
Total Customers	4,143.1	–	4,143.1
Elimination of inter-segment sales	–	(4,144.7)	(4,144.7)
Total consolidated revenue in Adjusted results	8,159.2	–	8,159.2
Certain remeasurements	(383.9)	–	(383.9)
Total consolidated revenue in Total results	7,775.3	–	7,775.3

Certain remeasurements losses of £383.9 million (2021: £85.9 million) is comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £6.6 million (2021: £5.4 million). See note 3.7 for further details on contract liabilities.

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil in the current and previous financial year.

Electricity sales in the Generation segment were net of a £6.1 million payment to a Voluntary Energy Redress Fund.

The following is an analysis of the Group's revenues for the year ended 31 December 2021:

	Year ended 31 December 2021		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
Total Pellet Production	163.1	286.7	449.8
Generation			
Electricity sales	1,790.2	1,688.5	3,478.7
Renewable certificate sales	538.6	342.6	881.2
CfD income	234.9	–	234.9
Ancillary services	50.6	–	50.6
Other income	36.9	–	36.9
Total Generation	2,651.2	2,031.1	4,682.3
Customers			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
Total Customers	2,359.6	–	2,359.6
Elimination of inter-segment sales	–	(2,317.8)	(2,317.8)
Total consolidated revenue in Adjusted results	5,173.9	–	5,173.9
Certain remeasurements	(85.9)	–	(85.9)
Total consolidated revenue in Total results	5,088.0	–	5,088.0

2.2 Revenue continued

The Group is eligible for, and applies, the practical expedient available under IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

For accounting policies and other disclosures related to contract assets and liabilities, please see notes 3.5 and 3.7.

For accounting policies and other disclosures related to costs incurred to acquire customer contracts, please see note 3.6.

2.3 Operating and administrative expenses

This note sets out certain components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's external auditor, Deloitte LLP, in respect of services they provided to the Group during the year:

	Year ended 31 December	
	2022 £m	2021 £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	**248.9**	218.6
Repairs and maintenance expenditure on property, plant and equipment	**110.3**	109.1
Other operating and administrative expenses	**183.6**	142.2
Total operating and administrative expenses	**542.8**	469.9

Auditor's remuneration

	Year ended 31 December	
	2022 £'000	2021 £'000
Audit fees:		
Fees payable for the audit of the Group's Consolidated financial statements	**1375.0**	1,250.0
Fees payable for the audit of the Company's subsidiaries' statutory accounts	**40.0**	40.0
Total audit fees	**1,415.0**	1,290.0
Other fees:		
Review of the Group's half-year Condensed consolidated financial statements	**115.0**	110.0
Assurance services provided to non-material affiliates	**18.0**	16.4
Other services	**46.2**	42.3
Total audit and audit-related fees	**1,594.2**	1,458.7
Other assurance services	**65.0**	469.0
Total non-audit fees	**65.0**	469.0
Total auditor's remuneration	**1,659.2**	1,927.7

The fees payable for the audit of the Group's Consolidated financial statements above relates to the audit of all of the Group's subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries' statutory accounts disclosed above.

During 2022 there was a decrease in the level of non-audit services provided by Deloitte LLP in 2022. 2021 fees included agreed upon procedures and other assurance services provided in connection with the acquisition of Pinnacle Renewable Energy Inc. (Pinnacle). See note 5.1 for more information on the acquisition. See the Audit Committee report on page 116 for further details on other assurance services provided by Deloitte LLP.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill

Accounting policy

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) or group of CGUs expected to benefit from the synergies of the business combination.

The Group reviews its fixed assets (or, where appropriate, groups of assets combined into a CGUs) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at least annually.

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or CGU (value in use), or the expected price that would be received if the asset or CGU were sold to market participant (fair value less costs to sell). The initial assessment of the recoverable amount is normally based on value in use.

The assessment of future cash flows is based on the approved long-term forecasts used to support the Board's strategic planning process. It includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges. Assessments of future cash flows consider relevant environmental and climate change factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of the impact of climate change, growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

As required by IAS 36, the additional value that could be obtained from enhancing the Group's assets and the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to, is not reflected in the value in use calculation. In determining value in use, the estimate of future cash flows is discounted to present value using a pre-tax nominal discount rate reflecting the specific risks attributable to the asset or CGU in question.

The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell, based on its value in use and what a market participant would pay. If the recoverable amount is less than the current carrying amount in the Consolidated financial statements, an impairment charge is recorded to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Any impairment loss is recognised immediately in the Consolidated income statement.

An impairment loss relating to a CGU is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets pro-rata on the basis of the carrying amount of each asset. When allocating an impairment loss to the other assets in the CGU, if the recoverable amount of an individual asset within that CGU is determinable, the impairment loss allocated to the individual asset will be limited to reducing the assets, carrying value to its individual recoverable amount. If this results in the impairment loss allocated to an asset being less than its pro-rata share the excess is allocated on a pro-rata basis to the remaining assets in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. Non-financial assets other than goodwill that have an impairment loss recognised are reviewed in subsequent reporting periods for possible reversal of the impairment. Where an impairment reversal is identified, this is reversed immediately in the Consolidated income statement.

CGUs

		Year ended 31 December 2022
Segment name	CGUs contained within segment	Goodwill £m
Pellet Production	Northern Operations and Southern Operations	**176.0**
Generation	Drax Power Station (biomass)	**–**
	Lanark	**11.3**
	Galloway	**40.1**
	Cruachan	**26.9**
	OCGTs	**–**
	Daldowie	**–**
Customers	Drax Energy Solutions	**10.7**
	Opus Energy	**159.2**
		424.2

2.4 Impairment review of fixed assets and goodwill continued

The Pellet Production business consists of two CGUs – Northern Operations and Southern Operations. Goodwill recognised on the acquisition of Pinnacle was allocated to the Pellet Production segment due to the pellet operations as a whole being expected to benefit from the synergies of the larger, combined pellet operations.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash inflows to be the individual sites that share common infrastructure and control functions. Drax Power Station is comprised of two separate CGUs, one for biomass generation assets and one for coal generation assets. The coal CGU was previously fully written down following the decision to cease commercial coal generation. At the request of the UK Government, the Group has entered into an agreement with National Grid to keep its two coal units available to provide a "winter contingency" service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and will only operate if, and when, instructed to do so by National Grid. Had no impairment loss been previously recognised on the coal assets, they would have already been fully depreciated at the time the contract with National Grid was agreed. As such, management have assessed the impact of this agreement on the coal CGU and determined no reversal of any prior impairment is required.

In respect of the Customers business, the Group considers the smallest groups of assets that generate independent cash inflows to be equivalent to the operating entities within those businesses.

The OCGT development projects are considered one CGU due to the intention to operate and contract the plants using a portfolio approach, resulting in forecast cash inflows that are interdependent.

The Innovation, capital projects and other function does not have any external cash inflows and therefore does not meet the definition of a CGU and so is not included in the assessment below.

Assessment of indicators of impairment

CGU	Goodwill?	Impairment indicators identified?	Impairment review required?
Northern Operations and Southern Operations	Y	N	Y
Drax Power Station (biomass)	N	N	N
Lanark	Y	N	Y
Galloway	Y	N	Y
Cruachan	Y	N	Y
OCGTs	N	Y	Y
Daldowie	N	Y	Y
Drax Energy Solutions	Y	N	Y
Opus Energy	Y	N	Y

A review of the Group's CGUs gave rise to an indicator of impairment for two CGUs: the Daldowie fuel plant, due to the increase in energy prices resulting in a significant increase in input costs, and the OCGTs, due to a strategic review conducted during the year concluding that it was unlikely the Group's fourth OCGT project at Abergelli would be developed.

In determining that no indicators of impairment existed in respect of the remaining CGUs, the Group considered changes in market prices for commodities, foreign currency exchange rates, changes in macro-economic conditions, potential impacts of climate change and regulatory requirements since the previous reporting date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows. In particular, consideration was given to the impact of higher commodity prices and the changes in the economic environment, including market interest rates and inflation.

Whilst higher commodity prices (e.g. power, gas and fibre) were an impairment indicator for Daldowie, they were not deemed an impairment indicator for other CGUs which are less exposed to the impact of these higher prices. This is due to the nature of the industries in which they operate and the corresponding impact on revenues. In the Generation and Customers businesses, higher energy costs are an input cost but these are offset by higher revenues. Additionally, in the Pellet Production segment, higher fibre costs and energy prices have been offset by increased revenues, reflecting strong demand for biomass pellets.

In considering the economic environment, management concluded the Group's CGUs tend to be less sensitive to changes in the economy, as energy and pellet production are required to power and heat homes and businesses in the UK and abroad, which are generally considered essential spend. The Generation, Pellet Production and Drax Energy Solutions CGUs also contract with high quality, stable counterparties. For the Opus Energy CGU, customers are typically in the SME sector and therefore the impact of the economic environment, combined with higher market prices could potentially impact the recoverability of debt. However this impact is offset by the work done to improve the average credit quality of customers, along with achieved operational efficiencies and so was not deemed to be an impairment indicator.

Higher interest rates were also considered, including their impact on discount rates. In the prior year, only the Galloway CGU was sensitive to changes in the discount rate. Therefore, whilst interest rates have increased, any impact on discount rates was not considered to be an impairment indicator. For the Galloway CGU, the impact of increases to power prices during 2022 would more than offset the impact of a higher discount rate and therefore this was not considered to be an impairment indicator.

2.4 Impairment review of fixed assets and goodwill continued

Consideration was also given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation at Drax Power Station are due to expire, and whether that was an indicator of impairment (See the Principal risks section starting on page 77 for further details on biomass acceptability). The Group aims to reduce biomass costs over time, as part of a strategy to secure a long-term future for biomass generation. Whilst management's forecasts extend beyond 2027, they indicate that a majority of the carrying amount of the Drax Power Station (biomass) CGU is supported by pre-2027 cash flows. Accordingly, the end of current subsidies in 2027 was not deemed to be an indicator of impairment. Drax Power Station is currently deemed to have a useful life until at least 2039 and an expectation of continuing to be in operation until that time.

Impairment review

For the purpose of impairment reviews the recoverable amounts of these CGUs, or groups of CGUs, were measured based on value in use calculations using the Group's established planning models. These calculations depend on a broad range of assumptions, the most significant of which are outlined below for each CGU, or Group of CGUs, to which an impairment test has been performed in the current year. Management's bases for these estimates are also outlined below.

CGUs	Significant assumptions for value in use calculation	Management's bases for determining estimates used in value in use calculation
Northern Operations and Southern Operations	• Production costs • Production volumes • Sales prices • Discount rate	• Future production costs are estimated based on current year actual production costs plus inflation. • Production volumes are estimated based on the current capacity of the Group's pellet plants and the historical operational performance of the plants. • Sales prices are estimated based on contractual sales agreements. • See below for details of the basis used to estimate discount rates.
Drax Energy Solutions and Opus Energy	• Customer margins • Supply volumes • Collection rates • Power prices • Third party cost estimates • Discount rate	• Customer margin estimates are based on previously achieved profitability. • The expectation of future organic volumes is based on past performance and management's expectations of market development. • Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long-term power price forecast, which is prepared using externally provided gas price forecast and demand inputs. • Third-party cost estimates are based on a combination of externally published rates, management analysis of key market input assumptions, and forecasts from external experts. • Collection rates are estimated based on historical data and adjusted for expected changes in future circumstances. • See below for details of the basis used to estimate discount rates.
OCGTs, Lanark, Galloway and Cruachan	• Power prices • Sources of stability income • Volume of generation (hydros only) • Construction cost (OCGTs only) • Discount rate	• Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long term power price forecast, which is prepared using externally provided gas price forecast and demand inputs. • Stability income assumptions are based on past performance and current agreed prices with National Grid. • Volume of generation for the hydro assets is derived from historical rainfall averages. • Construction costs are estimated based on agreed contracted prices and obtained quotes. • See below for details of the basis used to estimate discount rates.
Daldowie	• Gas prices • Estimated contract end date • Discount rate	• Future wholesale gas price estimates are based on market traded prices for around five years (the period they are liquid). • The end date of the current contract is based on the contractual term and expectations about future extensions or changes to the contract term. • See below for details of the basis used to estimate discount rates.

For each group of CGUs, management has projected detailed cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the industries in which the Group operates. These longer-term structural changes are mainly linked to climate change and the transition to more renewable forms of energy and net zero. They are explained in more detail in each section below.

Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2% in all models. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for each of the industries in which the Group operates.

2.4 Impairment review of fixed assets and goodwill continued

The discount rates used reflect the weighted average cost of capital derived using the Capital Asset Pricing Model (CAPM). The estimations use a risk free rate based on government bonds, market participant capital structures and beta estimates adjusted for the specific industry and markets in which the CGU operates (taking into account relevant peer data sets). This calculation uses the relevant tax rates to calculate a pre-tax discount rate.

As the Group does not believe that any reasonably possible change in the key assumptions would result in an impairment it is not considered a key source of estimation uncertainty and therefore any sensitivities provided below are for additional information only.

Further details on the assessments for each group of CGUs are given below.

Pellet Production

The recoverable amount of the Pellet Production group of CGUs, consisting of the Northern Operations and Southern Operations CGUs, is measured at least annually due to the goodwill allocated to the group of CGUs. These CGUs are principally engaged in the production and sale of biomass pellets. Management has projected detailed cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the pellet industry such as climate change and the expected growth in the biomass industry as economies transition to more renewable forms of energy and net zero. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the pellet industry.

Group of CGUs	Carrying amount (including allocated goodwill) £m	Discount rate
Pellet Production	1,024.7	10.5%

The pre-tax nominal discount rate of 10.5% (2021: 8.5%) was calculated based on independent analysis commissioned by the Group.

The value in use for the Pellet Production group of CGUs was significantly in excess of its carrying amount. An increase in production costs of $20 per tonne in the calculation would reduce the headroom by £711.4 million and a 15% decrease in production volumes would reduce the headroom by £572.3 million. Neither scenario would result in an impairment. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

Drax Energy Solutions and Opus Energy

The recoverable amounts of the Drax Energy Solutions and Opus Energy CGUs are measured annually due to the existence of goodwill allocated to these CGUs. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of the business models. Management has projected detailed cash flows based on a period of five years, consistent with the period specified by IAS 36, and the period the Group assesses viability over in the Viability statement. Cash flows beyond the five-year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the energy supply industry.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Drax Energy Solutions	25.7	10.3%
Opus Energy	230.5	10.3%

The expected future cash flows of the Drax Energy Solutions CGU were discounted using a pre-tax nominal discount rate of 10.3% (2021: 8.7%), calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that this rate reflects the prospects for a well-established Customers business, reflecting the comparatively long trading record and customer bases the business holds.

The value in use of the Drax Energy Solutions CGU was significantly in excess of its carrying amount. An increase in the discount rate to 11.4% combined with factoring in 0% growth in the calculation would reduce the headroom by £36.0 million, which would not result in an impairment. Reflecting the significant headroom in the analysis, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Drax Energy Solutions CGU that was lower than its carrying amount.

2.4 Impairment review of fixed assets and goodwill continued

The expected future cash flows of the Opus Energy CGU were also discounted using a pre-tax nominal discount rate of 10.3% (2021: 8.7%). The forecast future cash flows of the CGU are adjusted to reflect the relative risk profile of its customer base compared to Drax Energy Solutions, for example by incorporating higher levels of expected credit losses. Opus Energy operates in the same industry, under the same macro-economic conditions and is impacted by the same commodity prices and impacts of climate change as Drax Energy Solutions. As such, it is considered appropriate to use the same discount rate for both CGUs, supported by independent analysis.

The value in use of the Opus Energy CGU was significantly in excess of its carrying amount. An increase in the discount rate to 11.4% combined with factoring in 0% growth in the calculation would reduce the headroom by £57.9 million. This would not result in an impairment. Reflecting the significant headroom in the analysis and sensitivities performed, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Opus Energy CGU that was lower than its carrying amount.

Lanark, Galloway and Cruachan

The Group tests the Lanark, Galloway and Cruachan CGUs for potential impairment annually due to the existence of goodwill allocated to these CGUs. These CGUs are engaged in hydro and pumped storage power generation. Management has projected detailed cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the generation industry in the models used, such as climate change, changing weather patterns, and the continued transition to renewable forms of energy and net zero. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the generation industry.

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Lanark	49.9	8.5%
Galloway	169.8	8.5%
Cruachan	250.6	8.5%

The expected future cash flows of these CGUs were discounted using a pre-tax nominal discount rate of 8.5% (2021: 7.3%) The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's hydro and pumped storage generation operations.

The value in use for all three CGUs (Lanark, Galloway and Cruachan) was in excess of their carrying amounts. An increase in the discount rate to 15% in each of the calculations would reduce the headroom for Lanark, Galloway and Cruachan by £26.0 million, £87.2 million and £257.6 million respectively. A decrease in power prices of 25% in each of the calculations would reduce the headroom for Lanark, Galloway and Cruachan by £28.9 million, £101.1 million and £154.4 million respectively. None of these changes would result in an impairment. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than their carrying amount.

Daldowie

The Daldowie CGU does not have any goodwill allocated to it but in the current year had an indicator of impairment present. The impairment indicator was due to higher energy input costs resulting in a reduction in the forecast earnings. A full impairment review was carried out as a result of this impairment indicator. This CGU is engaged in processing wastewater sludge into biomass pellets. Management has projected detailed cash flows based on a period of three years, reflecting the expected contract end date.

The carrying amount and discount rate applied to the CGU is set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Daldowie	8.9	8.9%

An independent analysis commissioned by the Group calculated a pre-tax nominal discount rate of 8.9% which was applied to the expected future cash flows to determine the value in use of the fuel plant. The carrying amount of £16.9 million was higher than the value in use calculation and so an impairment charge was therefore recorded. As there is no goodwill associated with the Daldowie fuel plant, this charge of £8.0 million was applied to its fixed assets on a pro rata basis as described in the accounting policy section of this note. An increase in estimated energy input costs of 25% in the value in use calculation would increase the impairment by £4.2 million.

2.4 Impairment review of fixed assets and goodwill continued

OCGTs

The OCGT CGU does not have any goodwill allocated to it but in the current year had an indicator of impairment present. Following a strategic review during the year, it was concluded that it was currently unlikely that the Group would develop its fourth OCGT project at Abergelli. The Abergelli OCGT development does not hold a Capacity Market contract. As a result of this strategic review, the Group has recognised an impairment charge of £8.6 million, representing the previously capitalised development costs for the individual project. The impairment indicator was specific to the Abergelli assets with the CGU. No impairment indicators were identified in relation to the other assets within the CGU, or the CGU as a whole, and therefore a full impairment assessment was not required.

Impairment of non-current assets

Due to a change in accounting policy in the current year an impairment charge has been recognised on intangible assets relating to SaaS costs previously capitalised (See Change in accounting policy section in the Basis of preparation on page 177 for further details). An impairment charge has also been recognised on a billing system where the Group has stopped development and is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. See note 5.2 for further details.

The Group has incurred impairment losses in the year. It is the Group's policy that any impairments of assets that have not yet been brought into use and depreciated or amortised are reflected in the cost of the asset being impaired. For impairments of assets that have already been brought into use, the impairment is reflected as an accelerated charge in the accumulated depreciation or amortisation of the asset.

Impairment	Daldowie £m	OCGTs £m	Customers billing system £m	SaaS assets £m	Total £m
Property, plant and equipment – cost	–	6.9	–	–	6.9
Property, plant and equipment – accumulated depreciation	8.0	–	–	–	8.0
Intangible assets – cost	–	1.7	19.2	–	20.9
Intangible assets – accumulated amortisation	–	–	–	5.7	5.7
Total impairment of non-current assets	8.0	8.6	19.2	5.7	41.5

The total impairments for the year of £41.5 million are recognised in the impairment of non-current assets line in the Consolidated income statement. The impairment of SaaS intangible assets and the Customers billing system, totalling £24.9 million, have been treated as exceptional items. See note 2.7 for further details.

2.5 Net finance costs

Net finance costs reflect expenses incurred in managing the debt structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful lives (see note 5.3), interest income on the Group's defined benefit pension scheme surplus (see note 6.3) and lease liabilities (see note 3.2). These are offset by interest income that the Group generates through use of short-term cash surpluses, for example through investment in money market funds.

A reconciliation of net finance costs is shown in the table below:

	Year ended 31 December	
	2022 £m	2021 £m
Interest payable and similar charges:		
Interest payable on borrowings measured at amortised cost	**(68.6)**	(59.2)
Interest on lease liabilities	**(6.8)**	(4.9)
Unwinding of discount on provisions	**(1.1)**	(0.6)
Amortisation of deferred finance costs	**(6.1)**	(5.7)
Other financing charges	**(0.5)**	(0.5)
Total interest payable and similar charges included in Adjusted results	**(83.1)**	(70.9)
Interest receivable:		
Interest income on bank deposits	**3.3**	0.1
Interest income on defined benefit surplus (note 6.3)	**1.0**	0.3
Total interest receivable included in Adjusted results	**4.3**	0.4
Foreign exchange gains included in Adjusted results	**14.8**	0.9
Net finance costs included in Adjusted results	**(64.0)**	(69.6)
Certain remeasurements on financing derivatives	**(4.2)**	(5.4)
Net finance costs in Total results	**(68.2)**	(75.0)

2.5 Net finance costs continued

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the reporting date.

Changes in the Group's financing structure during 2022 are described in note 4.2.

The Group has a number of intercompany loans denominated in the functional currency of certain foreign subsidiaries, that are owed to a sterling functional currency entity, and sterling intercompany loans owed by foreign subsidiaries to a sterling functional currency entity. Due to the weakening of sterling during the year, this has resulted in a foreign exchange gain of £29.0 million (2021: gain of £4.2 million) on the retranslation of intercompany loans in the Consolidated income statement of the sterling functional currency entity. The foreign exchange loss (2021: loss) on translating the foreign subsidiaries' intercompany loans into the Group's sterling presentational currency is recognised within the translation reserve. As such, on consolidation, a foreign exchange gain (2021: gain) arises in the Consolidated income statement and is part of the foreign exchange gains included in Adjusted results in the table above.

2.6 Current and deferred tax

The tax credit or charge includes both current and deferred tax. It reflects the estimated tax on the profit before tax for the Group for the year ended 31 December 2022 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement, in line with IAS 12.

Accounting policy

Current tax includes UK corporation tax, corporate income tax in Canada and US income tax. It is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit or loss before tax as reported in the Consolidated income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases is based on specialist independent tax advice. No uncertain tax provisions have been recognised in the current or prior year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred taxes are credited or charged against profit or loss in the Consolidated income statement, except when they relate to items that are recognised in OCI or directly in equity, in which case the current and deferred taxes are recognised in the Consolidated statement of comprehensive income or directly in the Consolidated statement of changes in equity respectively.

The Group has utilised the relief available under the Research and Development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants in line with IAS 20 and are recorded in operating profit within the Consolidated income statement. The credit is subject to corporation tax with the corresponding receivable offset against total corporation tax payable.

In accounting for tax, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. These assumptions are consistent with other assumptions used in these financial statements. Full provision is made for deferred tax at the rates of tax prevailing at the reporting date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered. The recoverability of the deferred tax asset is considered an estimate as it relies on the future profitability of the Group's businesses. See table on page 202 for a breakdown of the net deferred tax asset or liability position for each jurisdiction.

	Year ended 31 December	
	2022 £m	2021 £m
Total tax credit/(charge) from continuing operations comprises:		
Current tax		
– Current year	**(66.0)**	(7.7)
– Adjustments in respect of prior periods	**1.9**	(1.4)
Deferred tax		
– Before impact of tax rate changes	**61.9**	(7.3)
– Adjustments in respect of prior periods	**(0.1)**	(1.0)
– Effect of changes in tax rate	**6.7**	(49.0)
Total tax credit/(charge)	**4.4**	(66.4)

2.6 Current and deferred tax continued

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension scheme	**6.1**	(7.2)
Deferred tax on share-based payments	**–**	5.4
Deferred tax on cash flow hedges	**(5.6)**	41.2
Deferred tax on cost of hedging	**2.2**	(7.7)
Total tax credit	**2.7**	31.7

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items released directly from equity:		
Deferred tax on cost of hedging	**7.2**	5.4
Deferred tax on cash flow hedges	**4.8**	(7.5)
Deferred tax on share-based payments	**7.4**	–
Total tax credit/(charge)	**19.4**	(2.1)

UK corporation tax is the main income tax for the Group and is calculated at 19% (2021: 19%) of the assessable profit or loss for the year.

Due to the Group's overseas operations, the US income tax rate of 21% (2021: 21%) and the Canadian corporate income tax rate of 27% (2021: 27%) are also relevant to the Group's tax charge.

The tax rate for the full year, before the impact of changes in tax rates, is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims and the UK super-deduction introduced in the Finance Act 2021, which allows for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred between 1 April 2021 and 31 March 2023.

Drax Power Limited was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation, the company is entitled to apply a lower tax rate of 10% to profits derived from utilisation of the patented technology.

The Finance Act 2021 also contained legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The impact of this rate increase is a net £6.7 million deferred tax credit through Total results in the Consolidated income statement (2021: £49.0 million charge).

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2022			Year ended 31 December 2021		
	Adjusted results £m	**Exceptional items and certain remeasurements £m**	**Total results £m**	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Profit/(loss) before tax from continuing operations	**405.4**	**(327.3)**	**78.1**	100.5	21.0	121.5
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2021: 19%)	**77.0**	**(62.2)**	**14.8**	19.2	4.0	23.2
Effects of:						
Adjustments in respect of prior periods	**(1.8)**	**–**	**(1.8)**	2.4	–	2.4
Expenses not deductible for tax purposes	**4.5**	**–**	**4.5**	2.8	1.7	4.5
Impact of tax rate change	**2.9**	**(9.6)**	**(6.7)**	0.4	48.6	49.0
Difference in overseas tax rates	**(1.3)**	**–**	**(1.3)**	(1.1)	–	(1.1)
Patent Box benefit	**(9.6)**	**–**	**(9.6)**	(8.0)	–	(8.0)
Tax effect of RDEC credit	**(0.8)**	**–**	**(0.8)**	(0.9)	–	(0.9)
UK super-deduction	**(3.5)**	**–**	**(3.5)**	(2.7)	–	(2.7)
Total tax charge/(credit)	**67.4**	**(71.8)**	**(4.4)**	12.1	54.3	66.4

Section 2: Financial performance continued

2.6 Current and deferred tax continued

The movements in deferred tax assets and liabilities during each year are shown below.

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2021	13.0	(183.0)	2.3	(15.7)	33.5	(23.3)	16.5	(156.7)
(Charged)/credited to the income statement	(5.6)	(64.4)	–	(3.5)	11.7	5.4	(0.9)	(57.3)
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(7.2)	(7.2)
Credited to other comprehensive income in respect of share-based payments	–	–	–	–	–	–	5.4	5.4
Credited to other comprehensive income in respect of cash flow hedges	41.2	–	–	–	–	–	–	41.2
Charged to other comprehensive income in respect of cost of hedging	(7.7)	–	–	–	–	–	–	(7.7)
Charged to equity in respect of cash flow hedges	(7.5)	–	–	–	–	–	–	(7.5)
Credited to equity in respect of cost of hedging	5.4	–	–	–	–	–	–	5.4
Impact of acquisition	–	(44.7)	–	(0.6)	14.4	(0.8)	19.6	(12.1)
Effect of changes in foreign exchange rates	–	(0.5)	–	(0.1)	0.4	–	0.1	(0.1)
At 1 January 2022	**38.8**	**(292.6)**	**2.3**	**(19.9)**	**60.0**	**(18.7)**	**33.5**	**(196.6)**
Credited/(charged)to the income statement	**77.3**	**(24.9)**	**(1.8)**	**7.0**	**15.7**	**(20.7)**	**16.0**	**68.6**
Credited to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**6.1**	**–**	**6.1**
Charged to other comprehensive income in respect of cash flow hedges	**(5.6)**	**–**	**–**	**–**	**–**	**–**	**–**	**(5.6)**
Credited to other comprehensive income in respect of cost of hedging	**2.2**	**–**	**–**	**–**	**–**	**–**	**–**	**2.2**
Credited to equity in respect of cash flow hedges	**4.8**	**–**	**–**	**–**	**–**	**–**	**–**	**4.8**
Credited to equity in respect of cost of hedging	**7.2**	**–**	**–**	**–**	**–**	**–**	**–**	**7.2**
Credited to equity in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**7.4**	**7.4**
Impact of acquisition	**–**	**(0.8)**	**–**	**–**	**–**	**–**	**–**	**(0.8)**
Effect of changes in foreign exchange rates	**–**	**(3.0)**	**–**	**–**	**4.4**	**–**	**1.0**	**2.4**
At 31 December 2022	**124.7**	**(321.3)**	**0.5**	**(12.9)**	**80.1**	**(33.3)**	**57.9**	**(104.3)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset at 31 December 2022	**–**	**(49.6)**	**–**	**0.2**	**27.1**	**(1.0)**	**32.7**	**9.4**
Net US deferred tax asset at 31 December 2022	**–**	**(30.6)**	**–**	**–**	**53.0**	**–**	**5.5**	**27.9**
Net UK deferred tax liability at 31 December 2022	**124.7**	**(241.1)**	**0.5**	**(13.1)**	**–**	**(32.3)**	**19.7**	**(141.6)**
Net Canadian deferred tax asset at 31 December 2021	–	(38.1)	–	(0.2)	17.5	(0.4)	26.6	5.4
Net US deferred tax asset at 31 December 2021	–	(27.6)	–	–	42.5	(0.3)	8.7	23.3
Net UK deferred tax liability at 31 December 2021	38.8	(226.9)	2.3	(19.7)	–	(18.0)	(1.8)	(225.3)

2.6 Current and deferred tax continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise they are shown separately in the Consolidated balance sheet. Within the above trade losses deferred tax asset of £80.1 million (2021: £60.0 million) there is £53.0 million (2021: £42.5 million) in relation to losses in the US Pellet Production business. The remaining £27.1 million relates to losses of the Canadian Pellet Production business (2021: £17.5 million).

The future expected reversal of accelerated capital allowances and other timing differences, coupled with the profitability (inclusive of the impact of transfer pricing adjustments), stable output and forecast improvement in operational performance, mean that the US and Canadian businesses expect to generate sufficient profits in the short to medium term against which to utilise the deferred tax assets. The estimates used when assessing the future profitability of the US and Canadian businesses have been approved by the Board and are consistent with estimates used in the going concern assessment and in the Viability statement on page 75.

As at 31 December 2022 the Group held £79.2 million (2021: £79.2 million) of UK capital losses available for offset against future chargeable gains. These losses are unrecognised for deferred tax purposes as the Group does not currently expect UK taxable gains to arise that would be eligible to offset against these losses.

2.7 Alternative performance measures

The APMs glossary to these Consolidated financial statements on page 287 provides details of all APMs used, each APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted results in the Consolidated income statement. The Directors believe that this approach is useful as it provides a clear and consistent view of underlying trading performance. Certain remeasurements and exceptional items are excluded from Adjusted results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way Executive management and the Board assess the performance of the business.

The Group has a policy and framework for the determination of transactions to present as exceptional. All transactions presented as exceptional are approved by the Audit Committee. See the Audit Committee Report on page 116 for further details.

In these Consolidated financial statements, the following transactions have been designated as exceptional items and presented separately:

- Impairment charges incurred on the application of the Group's new accounting policy for SaaS costs, consistent with the IFRIC agenda decision (see Change in accounting policy section in the Basis of preparation on page 177) (2022, All segments), and on costs associated with the Customers billing system (2022, Customers). See note 5.2 for further information.
- Costs associated with the acquisition and integration of Pinnacle (2021, Pellet Production).
- Costs relating to the restructuring of the Customers business (2021, Customers).
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation (2021, Generation).
- Impact of UK tax rate change on deferred tax balances (2022 and 2021, Generation and Customers). See note 2.6 for further information.

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to derivative contracts with a maturity in future periods, or ii) are realised in relation to the maturity of derivative contracts in the current period. The effect of excluding certain remeasurements from Adjusted results is to reflect commodity sales and purchases at contracted prices i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, and financial contracts in the period they are intended to hedge, to reflect the underlying trading performance of the Group in Adjusted results.

Section 2: Financial performance continued

2.7 Alternative performance measures continued

Volatility in financial and commodity markets has continued in 2022, in part due to the conflict in Ukraine. This has resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, or where hedge accounting is ineffective, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil. Further detail on the Group's derivative financial instruments is provided in Section 7.

	Year ended 31 December	
	2022 £m	2021[1] £m
Exceptional items:		
Inventory provision as a result of coal closure	–	(0.3)
Acquisition costs	–	(7.9)
Restructuring costs	–	(5.2)
Integration costs	–	(4.1)
Coal closure costs	–	(4.8)
Impairment of non-current assets	**(24.9)**	–
Exceptional items included within operating profit and profit before tax	**(24.9)**	(22.3)
Tax on exceptional items	**4.7**	2.5
Impact of tax rate change	**(9.8)**	(50.2)
Exceptional items after tax	**(30.0)**	(70.0)
Certain remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	**(441.4)**	(77.0)
Net remeasurements realised on maturity of derivative contracts included in revenue	**107.7**	(8.9)
Net hedge ineffectiveness reclassified to profit or loss included in revenue	**(50.2)**	–
Net fair value remeasurements on derivative contracts included in cost of sales	**32.6**	36.6
Net remeasurements realised on maturity of derivative contracts included in cost of sales	**53.1**	98.0
Certain remeasurements included within operating profit	**(298.2)**	48.7
Net remeasurements on maturity of derivative contracts included in interest payable and similar charges	**(0.4)**	(0.3)
Net fair value remeasurements on derivative contracts included in foreign exchange gains/(losses)	**(3.8)**	(5.1)
Certain remeasurements included in profit before tax	**(302.4)**	43.3
Tax on certain remeasurements	**57.5**	(8.2)
Impact of tax rate change	**19.4**	1.6
Certain remeasurements after tax	**(225.5)**	36.7
Reconciliation of profit after tax from continuing operations:		
Adjusted profit after tax	**338.0**	88.4
Exceptional items after tax	**(30.0)**	(70.0)
Certain remeasurements after tax	**(225.5)**	36.7
Total profit after tax	**82.5**	55.1

[1] Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptionals and certain remeasurements.

2.7 Alternative performance measures continued

For each item designated as exceptional or as a certain remeasurement, the table below summarises the impact of the item on the Adjusted profit after tax and Adjusted basic EPS from continuing operations and the total cash flow from continuing and discontinued operations.

	Year ended 31 December 2022							
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax credit/ (charge) £m	Profit/(loss) for the period £m	Basic earnings/ (loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	**7,775.3**	**1,023.3**	**146.3**	**78.1**	**4.4**	**82.5**	**21.3**	**207.7**
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	**383.9**	**298.2**	**298.2**	**302.4**	**(57.5)**	**244.9**	**61.2**	–
Impact of tax rate change	–	–	–	–	**(19.4)**	**(19.4)**	**(4.8)**	–
Exceptional items:								
Impairment of non-current assets	–	–	**24.9**	**24.9**	**(4.7)**	**20.2**	**5.0**	–
Impact of tax rate change	–	–	–	–	**9.8**	**9.8**	**2.4**	–
Total	**383.9**	**298.2**	**323.1**	**327.3**	**(71.8)**	**255.5**	**63.8**	–
Adjusted results totals	**8,159.2**	**1,321.5**	**469.4**	**405.4**	**(67.4)**	**338.0**	**85.1**	**207.7**

	Year ended 31 December 2021[1]							
	Revenue £m	Gross profit/ (loss) £m	Operating profit/(loss) £m	Profit/(loss) before tax £m	Tax (charge)/ credit £m	Profit/(loss) for the period £m	Basic earnings/ (loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	5,088.0	891.2	196.5	121.5	(66.4)	55.1	13.9	306.5
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	–
Impact of tax rate change	–	–	–	–	(1.6)	(1.6)	(0.4)	–
Exceptional items:								
Inventory provision as a result of coal closure	–	0.3	0.3	0.3	(0.1)	0.2	0.1	–
Acquisition costs	–	–	7.9	7.9	–	7.9	1.8	7.9
Restructuring costs	–	–	5.2	5.2	(0.8)	4.4	1.1	4.4
Integration costs	–	–	4.1	4.1	(0.8)	3.3	0.8	3.3
Coal closure costs	–	–	4.8	4.8	(0.8)	4.0	1.2	–
Impact of tax rate change	–	–	–	–	50.2	50.2	12.6	–
Total	85.9	(48.4)	(26.4)	(21.0)	54.3	33.3	8.4	15.6
Adjusted results totals	5,173.9	842.8	170.1	100.5	(12.1)	88.4	22.3	322.1

[1] Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptionals and certain remeasurements.

Section 2: Financial performance continued

2.7 Alternative performance measures continued

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group. A reconciliation from Adjusted operating profit from continuing operations as per the Consolidated income statement is shown below:

	Year ended 31 December 2022		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit/(loss)	**472.0**	**(2.6)**	**469.4**
Depreciation and amortisation	**237.2**	**2.2**	**239.4**
Impairment losses on non-current assets	**16.6**	**–**	**16.6**
Other losses	**5.7**	**0.1**	**5.8**
Income from associates	**(0.5)**	**–**	**(0.5)**
Adjusted EBITDA	**731.0**	**(0.3)**	**730.7**

	Year ended 31 December 2021		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit	170.6	(0.5)	170.1
Depreciation and amortisation	198.3	0.6	198.9
Other losses	9.3	0.1	9.4
Income from associates	(0.3)	–	(0.3)
Adjusted EBITDA from continuing operations	377.9	0.2	378.1
Adjusted EBITDA from discontinued operations	20.3	–	20.3
Adjusted EBITDA from continuing and discontinued operations	398.2	0.2	398.4

	Year ended 31 December 2022					
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Total £m
Segment Adjusted EBITDA:						
Continuing operations	133.7	695.5	25.8	(113.6)	(10.4)	731.0

	Year ended 31 December 2021					
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Total £m
Segment Adjusted EBITDA:						
Continuing operations	85.7	351.5	5.7	(70.9)	5.9	377.9
Discontinued operations	–	20.3	–	–	–	20.3
Total	85.7	371.8	5.7	(70.9)	5.9	398.2

Net debt

Net debt is calculated by taking the Group's borrowings (note 4.2), adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents (note 4.1).

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments and interest in respect of the Group's US dollar (USD) and euro (EUR) denominated debt (see note 4.2). USD and EUR balances are translated at the hedged rate, rather than the rate prevailing at the reporting date, which impacts the carrying amount of the Group's borrowings. Net debt excludes the share of borrowings and cash and cash equivalents attributable to NCI. See the APMs glossary and the APMs section within the Basis of preparation for further details on the calculation of Net debt.

2.7 Alternative performance measures continued

	As at 31 December	
	2022 £m	2021 £m
Borrowings	**(1,440.9)**	(1,361.0)
Cash and cash equivalents	**238.0**	317.4
Net cash and borrowings	**(1,202.9)**	(1,043.6)
NCI's share of cash and cash equivalents in non-wholly owned subsidiaries	**(0.7)**	–
Net debt excluding the impact of hedging instruments	**(1,203.6)**	(1,043.6)
Impact of hedging instruments	**(2.4)**	(64.4)
Net debt	**(1,206.0)**	(1,108.0)
Collateral posted/(received)	**234.0**	(172.8)
Net debt excluding collateral	**(972.0)**	(1,280.8)

The table below reconciles Net debt in terms of changes in these balances across the year:

	Year ended 31 December	
	2022 £m	2021 £m
Net debt at 1 January	**(1,108.0)**	(819.1)
(Decrease)/increase in cash and cash equivalents	**(85.6)**	27.3
Increase in borrowings	**(8.6)**	(310.2)
Effect of changes in foreign exchange rates	**(65.8)**	15.2
Movement in the impact of hedging instruments	**62.0**	(21.2)
Net debt at 31 December	**(1,206.0)**	(1,108.0)

Borrowings include listed bonds, bank debt and RCFs (to the extent drawn in cash), net of any deferred finance costs. Borrowings do not include other financial liabilities such as lease liabilities and trade and other payables (including working capital facilities as described in note 3.7).

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the Consolidated balance sheet and instead disclosed as operating commitments. The exclusion of lease liabilities from the calculation of Net debt is also consistent with the Group's covenant reporting requirements.

The Group does not include balances related to supply chain financing or factoring in the definition of Net debt. These facilities do not increase the Group's working capital cycle beyond the Group's standard payment terms and are only short-term balances. Therefore, the balances do not meet the Group's definition of borrowings and so are excluded from Net debt.

A reconciliation of the change in borrowings during the year is set out in the table on note 4.2.

As explained in the Basis of preparation, the Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.

	As at 31 December	
	2022	2021
Adjusted EBITDA (continuing and discontinued operations) (£m)	**731.0**	398.2
Net debt (£m)	**(1,206.0)**	(1,108.0)
Net debt excluding collateral (£m)	**(972.0)**	(1,280.8)
Net debt to Adjusted EBITDA ratio	**1.6**	2.8
Net debt (excluding collateral) to Adjusted EBITDA ratio	**1.3**	3.2

2.7 Alternative performance measures continued

Cash and committed facilities

The below table reconciles the Group's available cash and committed facilities:

	As at 31 December	
	2022 £m	2021 £m
Cash and cash equivalents (note 4.1)	**238.0**	317.4
RCF available but not utilised[1]	**260.1**	231.4
Liquidity facility available but not utilised	**200.0**	–
Total cash and committed facilities	**698.1**	548.8

(1) The Group's available balance on the RCF facility (includes £300 million and C$10 million RCF, see note 4.2) is reduced by letters of credit drawn under the RCF. At 31 December 2022 £46.0 million letters of credit were drawn (2021: £74.4 million).

Further commentary on total cash and committed facilities is contained within the Financial review starting on page 20.

2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profit or losses) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings attributable to owners of the Parent Company (profit or loss after tax in accordance with IFRS excluding amounts attributable to NCI) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact of all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the contingency period (such as those to be issued under employee share schemes – see note 6.2), were exercised and treated as ordinary shares as at the reporting date. Repurchased shares of 13.8 million (2021: 13.8 million) held in the Treasury shares reserve (see note 4.4) are not included in the weighted average calculation of shares. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Year ended 31 December	
	2022	2021
Earnings attributable to equity holders of the Parent Company for the purposes of basic and diluted earnings per share (£m), made up of:	**85.1**	79.7
Net result from continuing operations	**85.1**	55.6
Net result from discontinued operations	**–**	24.1
Number of shares (millions):		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**400.4**	398.4
Effect of dilutive potential ordinary shares under share plans	**14.0**	14.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**414.4**	412.6

	Year ended 31 December			
	2022		2021	
Earnings per share attributable to the owners of the Parent Company	**Adjusted results**	**Total results**	Adjusted results	Total results
Earnings – profit after tax (£m)	**340.6**	**85.1**	105.6	79.7
Earnings per share – basic (pence)	**85.1**	**21.3**	26.5	20.0
Earnings per share – diluted (pence)	**82.2**	**20.5**	25.6	19.3

	Year ended 31 December			
	2022		2021	
Earnings per share from continuing operations attributable to the owners of the Parent Company	**Adjusted results**	**Total results**	Adjusted results	Total results
Earnings – profit after tax (£m)	**340.6**	**85.1**	88.9	55.6
Earnings per share – basic (pence)	**85.1**	**21.3**	22.3	13.9
Earnings per share – diluted (pence)	**82.2**	**20.5**	21.5	13.5

There were no discontinued operations in the year. The Total profit after tax from discontinued operations in 2021 of £24.1 million, resulted in Total basic EPS of 6.1 pence and Total diluted EPS of 5.8 pence. Application of the same calculation to Adjusted profit after tax from discontinued operations in 2021 of £16.7 million, resulted in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence.

2.9 Dividends

	Year ended 31 December	
	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2022 of 8.4 pence per share paid on 7 October 2022 (2021: 7.5 pence per share paid on 8 October 2021)	**33.7**	29.9
Final dividend for the year ended 31 December 2021 of 11.3 pence per share paid on 13 May 2022 (2020: 10.3 pence per share paid on 14 May 2021)	**45.2**	41.0
Total distributions	**78.9**	70.9

At the forthcoming Annual General Meeting, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2022 of 12.6 pence per share (equivalent to approximately £50 million) payable on or before 19 May 2023. The final dividend has not been included as a liability as at 31 December 2022. This would bring total dividends payable in respect of the 2022 financial year to approximately £84 million.

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating; investment in the core business; paying a sustainable and growing dividend; and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends, the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

Consideration of sustainability, including a link to the Group's dividend, can be found in the Market context section on pages 4 and 5.

2.10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime that are attributable to the equity holders of the Parent Company, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	**198.3**	153.4
Profit for the year	**85.1**	79.7
Remeasurement of defined benefit pension scheme (note 6.3)	**(24.4)**	30.7
Deferred tax on remeasurement of defined benefit pension scheme (note 2.6)	**6.1**	(7.2)
Deferred tax on share-based payments (note 2.6)	**7.4**	5.4
Equity dividends paid (note 2.9)	**(78.9)**	(70.9)
Movements in equity associated with share-based payments (note 6.2)	**9.5**	7.4
Acquisition of NCI without a change in control (note 4.5)	**(9.3)**	(0.2)
At 31 December	**193.8**	198.3

Distributable reserves

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The Parent Company's financial statements are set out on pages 277 to 283 of this Annual report, disclose the Parent Company's distributable reserves of £306.3 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in holding and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the Parent Company has access to these reserves.

The immediate cash resources of the Group of £238.0 million are set out in note 4.1 and the recent history of cash generation within note 4.3. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 4.2) place customary conditions on the amount of dividend payments to be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future. See the Viability statement on page 75 and note 4.2 for further details on the covenants relating to the financing facilities.

Section 3: Operating assets and working capital

This section gives further information on the operating assets the Group uses to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise the Group's working capital balances.

3.1 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by the Group.

Accounting policy

Property, plant and equipment is stated at net book value, which is its cost less any accumulated depreciation less impairment, if required, charged to date. Property, plant and equipment assets are initially measured at cost. Cost comprises: the purchase price (after deducting trade discounts and rebates); any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and the estimate of the present value of the costs of dismantling and removing the item and restoring the site, where required. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any expected residual value, and charging it to the Consolidated income statement on a straight-line basis from the date that the asset is brought into use and over its UEL. Where relevant, this is limited to the expected decommissioning date of the site where the asset is located.

The Group constructs many of its assets as part of long-term development projects. Assets that are under the course of construction are not depreciated until they are ready for use in the way intended by management.

The table below shows the weighted average remaining UELs of the main categories of assets held at the reporting date:

	Average UEL remaining 2022 (years)
Freehold buildings	**20**
Plant and equipment	
Electricity generation assets:	
Drax Power Station common plant	**14**
Drax Power Station biomass-specific assets	**16**
Hydro-electric plants (including pumped storage)	**39**
Pellet production plant	**10**
Other plant, machinery and equipment	**14**
Reinstatement asset	**17**
Plant spare parts	**17**

Freehold land held at cost is considered to have an unlimited UEL and is not depreciated. The value of freehold land held at 31 December 2022 is £37.5 million (2021: £26.9 million).

3.1 Property, plant and equipment continued

An impairment charge is recognised immediately if the net book value of an asset exceeds its recoverable amount, which is defined to be the higher of an asset's value in use and its fair value less costs to sell. The Group's policy is to recognise an impairment charge through accumulated depreciation if the asset will continue to be used by the Group or if the asset will be subsequently sold. However, if the asset is still under construction, as no depreciation has yet been charged, the impairment charge is recognised in cost. Assets that will no longer be used by the Group are disposed of by removing both the cost and any accumulated depreciation and impairment.

Electricity generation assets are grouped according to the fuel type of the relevant plant. Certain assets at Drax Power Station are common to the whole plant.

Pellet Production plant includes the US and Canadian based assets of the Group's Pellet Production business and the assets at the Daldowie fuel plant near Glasgow.

Plant spare parts are depreciated over the remaining UEL of the relevant power station or plant.

Occasionally, plant spare parts are required to be used within maintenance projects. In this instance the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the Consolidated income statement within operating and administrative expenses. These issues are reflected on the issues to maintenance projects line in the table below.

Costs relating to major inspections, overhauls and upgrades to assets are included in the carrying amounts or recognised as separate assets, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated UELs and residual values are reviewed annually, taking into account regulatory changes and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the reporting date. Any changes to estimated UELs or residual values are applied prospectively.

At each reporting date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2022 and disclosures relating to the impairment of Daldowie and Abergelli assets, are set out in note 2.4.

During the year, the Group has capitalised £19.1 million (2021: £5.4 million) of costs relating to the UK BECCS project at Drax Power Station. The Group has also commenced construction of the Group's three OCGT projects that have obtained Capacity Market contracts. The costs capitalised in the year on the OCGT projects total £90.2 million (2021: £7.8 million).

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

Significant estimation uncertainty

Assets' UELs are reviewed annually at each reporting date, taking into consideration the impact of climate and environmental change. See note 3.8 for further details.

As disclosed on page 178, the Group has made an estimate regarding the UEL of Drax Power Station. Given the continued focus on climate change, renewable sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the UK Government's net zero strategy becomes clearer, particularly in relation to UK BECCS, the Group will continue to assess any potential impact of these developments and whether the UEL of Drax Power Station is impacted. The continued rate of change in these areas increases the risk that UELs of Drax Power Station will be updated in the future as new information becomes available. As such, a change in UELs in relation to Drax Power Station's biomass assets has been disclosed as a key source of estimation uncertainty. If UK BECCS is deployed at Drax Power Station this could result in an extension of the end of station life beyond the current assumed end date of 2039. If the UELs of Drax Power Station assets currently limited to end of station life of 2039 were to increase by a further 10 years, the annual depreciation charge for the year would decrease by approximately £14.2 million.

Section 3: Operating assets and working capital continued

3.1 Property, plant and equipment continued

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Assets under the course of construction £m	Total £m
Cost:					
At 1 January 2021	389.3	2,836.3	69.6	188.8	3,484.0
Additions at cost	13.9	0.9	5.3	195.4	215.5
Acquired in business combinations	43.8	185.0	–	61.1	289.9
Disposals[1]	(1.4)	(24.1)	–	–	(25.5)
Movement in reinstatement asset[1]	–	(2.7)	–	–	(2.7)
Issues to maintenance projects	–	–	(5.5)	–	(5.5)
Transfers from inventories	–	–	3.7	–	3.7
Transfers from right-of-use assets	0.3	0.7	–	–	1.0
Transfers from intangibles[2]	–	–	–	18.1	18.1
Transfers between PPE categories	5.7	156.4	(0.8)	(161.3)	–
Effect of changes in foreign exchange rates	2.2	8.0	–	2.2	12.4
At 1 January 2022	**453.8**	**3,160.5**	**72.3**	**304.3**	**3,990.9**
Additions at cost	**8.2**	**2.2**	**3.8**	**231.8**	**246.0**
Acquired in business combinations	**3.3**	**4.6**	**–**	**–**	**7.9**
Impairment	**(0.2)**	**–**	**–**	**(6.7)**	**(6.9)**
Disposals	**(1.3)**	**(23.7)**	**–**	**(0.9)**	**(25.9)**
Movement in reinstatement asset	**–**	**(22.4)**	**–**	**–**	**(22.4)**
Issues to maintenance projects	**–**	**–**	**(3.3)**	**–**	**(3.3)**
Transfers from inventories	**–**	**–**	**0.5**	**–**	**0.5**
Transfers from/(to) intangibles	**–**	**0.3**	**–**	**(0.3)**	**–**
Transfers between PPE categories	**22.3**	**202.6**	**7.7**	**(232.6)**	**–**
Effect of changes in foreign exchange rates	**17.2**	**52.6**	**–**	**13.3**	**83.1**
At 31 December 2022	**503.3**	**3,376.7**	**81.0**	**308.9**	**4,269.9**
Accumulated depreciation:					
At 1 January 2021	102.4	1,415.6	24.9	–	1,542.9
Depreciation charge for the year	15.8	130.2	3.8	–	149.8
Disposals	(0.1)	(16.2)	–	–	(16.3)
Issues to maintenance projects	–	–	(0.8)	–	(0.8)
Transfers from right-of-use assets	0.1	0.7	–	–	0.8
Transfers between PPE categories	(0.4)	0.4	–	–	–
Effect of changes in foreign exchange rates	0.4	3.4	–	–	3.8
At 1 January 2022	**118.2**	**1,534.1**	**27.9**	**–**	**1,680.2**
Depreciation charge for the year	**21.5**	**171.6**	**2.5**	**–**	**195.6**
Impairment	**0.5**	**7.5**	**–**	**–**	**8.0**
Disposals	**(1.7)**	**(19.7)**	**–**	**–**	**(21.4)**
Issues to maintenance projects	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Transfers between PPE categories	**(0.3)**	**(3.2)**	**3.5**	**–**	**–**
Effect of changes in foreign exchange rates	**4.1**	**15.8**	**–**	**–**	**19.9**
At 31 December 2022	**142.3**	**1,706.1**	**33.5**	**–**	**1,881.9**
Net book value:					
At 31 December 2021	335.6	1,626.4	44.4	304.3	2,310.7
At 31 December 2022	**361.0**	**1,670.6**	**47.5**	**308.9**	**2,388.0**

(1) The comparative amounts have been re-presented to split out the movement in the reinstatement asset. The reduction in the reinstatement asset of £2.7 million in the year ended 31 December 2021 was previously reported within the disposals line.
(2) The comparative amounts have been re-presented to present the OCGT development costs in assets under the course of construction.

Included in the amount for assets under the course of construction are capitalised borrowing costs of £5.2 million (2021: £nil) related to the construction of the three OCGT projects that have obtained a Capacity Market contract.

In the table above, impairments within cost of £6.9 million relate to the write down of the Group's fourth OCGT project that has not obtained a Capacity Market contract. Impairments within accumulated depreciation of £8.0 million relate to the write down of assets at the Daldowie fuel plant. See note 2.4 for further details of the Group's accounting policy for impairments of fixed assets.

3.1 Property, plant and equipment continued

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Pellet production plants £m	Other £m	Total plant and equipment £m
Cost:					
At 1 January 2021	2,072.9	471.0	276.4	16.0	2,836.3
Additions at cost	–	–	0.8	0.1	0.9
Acquired in business combinations	–	–	185.0	–	185.0
Disposals[1]	(17.5)	–	(5.6)	(1.0)	(24.1)
Movement in reinstatement asset[1]	(2.7)	–	–	–	(2.7)
Transfers from right-of-use assets	–	–	0.7	–	0.7
Transfers between PPE categories	65.1	5.0	82.0	4.3	156.4
Effect of changes in foreign exchange rates	–	–	8.0	–	8.0
At 1 January 2022 [2]	**2,117.8**	**476.0**	**547.3**	**19.4**	**3,160.5**
Additions at cost	**1.0**	**–**	**0.9**	**0.3**	**2.2**
Acquired in business combinations	**–**	**–**	**4.6**	**–**	**4.6**
Disposals	**(0.1)**	**–**	**(21.1)**	**(2.5)**	**(23.7)**
Movement in reinstatement asset	**(22.4)**	**–**	**–**	**–**	**(22.4)**
Transfers from intangibles	**–**	**–**	**0.3**	**–**	**0.3**
Transfers between PPE categories	**45.0**	**3.4**	**154.2**	**–**	**202.6**
Effect of changes in foreign exchange rates	**–**	**–**	**52.6**	**–**	**52.6**
At 31 December 2022	**2,141.3**	**479.4**	**738.8**	**17.2**	**3,376.7**
Accumulated depreciation:					
At 1 January 2021	1,298.4	28.1	77.3	11.8	1,415.6
Depreciation charge for the year	70.3	12.1	45.0	2.8	130.2
Disposals	(11.2)	–	(4.2)	(0.8)	(16.2)
Transfers from right-of-use assets	–	–	0.7	–	0.7
Transfers between PPE categories	(1.0)	1.0	0.4	–	0.4
Effect of changes in foreign exchange rates	–	–	3.4	–	3.4
At 1 January 2022	**1,356.5**	**41.2**	**122.6**	**13.8**	**1,534.1**
Depreciation charge for the year	**64.3**	**12.1**	**92.9**	**2.3**	**171.6**
Impairment	**–**	**–**	**7.5**	**–**	**7.5**
Disposals	**–**	**–**	**(17.3)**	**(2.4)**	**(19.7)**
Transfers between PPE categories	**(3.5)**	**–**	**0.3**	**–**	**(3.2)**
Effect of changes in foreign exchange rates	**–**	**–**	**15.8**	**–**	**15.8**
At 31 December 2022	**1,417.3**	**53.3**	**221.8**	**13.7**	**1,706.1**
Net book value:					
At 31 December 2021	761.3	434.8	424.7	5.6	1,626.4
At 31 December 2022	**724.0**	**426.1**	**517.0**	**3.5**	**1,670.6**

(1) The comparative amounts have been re-presented to split out the movement in the reinstatement asset. The reduction in the reinstatement asset of £2.7 million in the year ended 31 December 2021 was previously reported within the disposals line.
(2) The comparative amounts have been re-presented to present the OCGT development costs in assets under the course of construction.

The depreciation expense in the Consolidated income statement of £208.0 million comprises of £195.6 million of depreciation charged on property, plant and equipment, £20.3 million charged on right-of-use assets (see note 3.2) offset by £7.9 million of depreciation included in closing inventories.

The increase in depreciation of pellet production plants during the year includes the impact of planned higher levels of capital expenditure in relation to plant upgrades and capacity expansions, and includes some accelerated depreciation for existing equipment that has been, or will be, replaced following capital investments. The UELs of impacted assets were reviewed and updated at the start of 2022 to reflect these plans, and the impact of these updates on the depreciation charge for 2022 was around an additional £22.0 million charge.

Section 3: Operating assets and working capital continued

3.2 Leases

Accounting policy

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a right-of-use asset and corresponding lease liability are recognised on the Consolidated balance sheet.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. Incremental borrowing rates are updated biannually. The borrowing rate for leased property is derived with reference to property yields specific to the location of the leased property and property type. For non-property leases, the borrowing rate is derived from a series of inputs including counterparty specific proxies for risk-free rates, such as UK Gilt curves, and an adjustment for credit risk based on the Group's credit rating. The liability is subsequently adjusted for interest, repayments and other modifications.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the initial calculation of the lease liability, estimated costs for dismantling or restoring the asset, any initial direct costs, and lease payments made or incentives received prior to commencement of the lease.

Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets, and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right-of-use asset and lease liability are adjusted, and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Lease extension or termination options are included within the lease term when the Group, as the lessee, has the discretion to exercise the option and where it is probable that the option will be exercised.

Leases with a term shorter than 12 months, or where the identified asset has a value below £3,500, are expensed to the Consolidated income statement on a straight-line basis over the term of the agreement.

3.2 Leases continued

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Railcars £m	Vessels £m	Total £m
Cost:					
At 1 January 2021	23.7	9.1	8.7	–	41.5
Additions at cost	0.2	7.0	4.1	33.3	44.6
Other movements	(0.5)	(4.2)	(0.3)	–	(5.0)
Transfers to PPE	(0.3)	(0.7)	–	–	(1.0)
Acquired in business combinations	4.7	4.1	17.0	34.6	60.4
Effect of changes in foreign exchange rates	0.1	(0.1)	0.7	0.6	1.3
At 1 January 2022	**27.9**	**15.2**	**30.2**	**68.5**	**141.8**
Additions at cost	**5.1**	**4.7**	**2.2**	**19.8**	**31.8**
Other movements	**(3.1)**	**4.0**	**(0.8)**	**–**	**0.1**
Effect of changes in foreign exchange rates	**0.5**	**0.9**	**2.1**	**2.5**	**6.0**
At 31 December 2022	**30.4**	**24.8**	**33.7**	**90.8**	**179.7**
Accumulated depreciation and impairment:					
At 1 January 2021	6.1	4.2	2.2	–	12.5
Depreciation charge for the year	4.3	4.6	3.2	3.1	15.2
Other movements	(1.9)	(3.3)	(0.3)	–	(5.5)
Transfers to PPE	(0.1)	(0.7)	–	–	(0.8)
Effect of changes in foreign exchange rates	0.1	–	0.5	–	0.6
At 1 January 2022	**8.5**	**4.8**	**5.6**	**3.1**	**22.0**
Depreciation charge for the year	**3.9**	**6.0**	**4.6**	**5.8**	**20.3**
Other movements	**(1.1)**	**(0.4)**	**–**	**–**	**(1.5)**
Effect of changes in foreign exchange rates	**0.2**	**0.2**	**0.4**	**(0.2)**	**0.6**
At 31 December 2022	**11.5**	**10.6**	**10.6**	**8.7**	**41.4**
Net book value:					
At 31 December 2021	19.4	10.4	24.6	65.4	119.8
At 31 December 2022	**18.9**	**14.2**	**23.1**	**82.1**	**138.3**

Lease liabilities

	Year ended 31 December	
Carrying amount:	**2022 £m**	2021 £m
At 1 January	**125.9**	30.2
Additions	**30.2**	44.7
Acquired in business combinations	**–**	61.1
Interest charge for the year	**6.8**	4.9
Payments	**(24.8)**	(17.9)
Other movements	**3.4**	0.2
Effect of changes in foreign exchange rates	**11.6**	2.7
At 31 December	**153.1**	125.9

Section 3: Operating assets and working capital continued

3.2 Leases continued

The existence of termination, extension and purchase options has not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group made payments of £0.1 million during the year (2021: £0.8 million) in relation to short-term and low value leases.

The maturity of the gross undiscounted lease liabilities at 31 December is as follows:

	As at 31 December	
	2022 £m	2021 £m
Within one year	**30.3**	21.2
Within one to two years	**26.7**	18.9
Within two to five years	**64.3**	46.4
After five years	**72.0**	78.4
Total gross lease liabilities	**193.3**	164.9
Effect of discounting	**(40.2)**	(39.0)
Lease liabilities recognised in the Consolidated balance sheet	**153.1**	125.9
Current portion	**22.7**	15.1
Non-current portion	**130.4**	110.8

The Group recognised the following charges from continuing operations relating to leases in the Consolidated income statement:

	Year ended 31 December	
	2022 £m	2021 £m
Expense relating to short-term leases	**0.1**	0.8
Interest charge for the year	**6.8**	4.9
Depreciation charge for the year	**20.3**	15.2

3.3 Renewable certificate assets

The Group earns renewable certificate assets including ROCs and REGOs which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning biomass pellets to generate electricity at Drax Power Station and generating renewable energy at a number of the Group's hydro-electric plants. The Group's ROC and REGO certificates are sold bilaterally to counterparties, including external suppliers, and also internally for utilisation by the Customers business.

This note sets out the value of these certificate assets that the Group held at the reporting date.

Accounting policy

Renewable certificates, principally ROCs and REGOs, are first recognised as current assets in the period they are generated. The Group uses their fair value at initial recognition, based on anticipated sales prices, as deemed cost. The value of renewable certificates earned is recognised in the Consolidated income statement as a reduction to cost of sales in the same period they are earned.

Where the Customers business incurs an obligation to deliver renewable certificates, that obligation is provided for in the period incurred within cost of sales.

ROCs and REGOs valuation are comprised of the expected value to be obtained in a sales transaction with a third-party supplier at the point of generation. If the Group has already agreed sales contracts to cover the renewable certificates generated in a period, then they are recognised at the contracted price. Any renewable certificates generated above this, or to be utilised by the Customers business, are recognised at an estimate of the expected market value, which is generally based on the amount to be obtained in a sales transaction with a third-party supplier.

3.3 Renewable certificate assets continued

ROC valuations are comprised of two parts: the expected value to be obtained in a sales transaction with a third-party supplier relating to the buy-out price; and an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the CP, which runs from April to March each year. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are redistributed to the suppliers who presented ROCs in a CP on a pro-rata basis. The estimate of the recycle value is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the CP, and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Historical experience indicates that the assumptions used in the valuations are reasonable, but the recycle value remains subject to possible variation and may subsequently differ from assumptions at 31 December.

At each reporting date, the Group reviews the carrying value of renewable certificate assets held against updated anticipated sales prices or anticipated obligation requirements, and the estimated recycle value. Where relevant, this takes account of agreed forward sales contracts, the likely utilisation of renewable certificates generated to settle the Group's own obligations, and any relevant information about the levels of wider renewable generation. Any impairment loss is recognised in the Consolidated income statement in the period incurred.

	Year ended 31 December	
Carrying amount:	**2022 £m**	2021 £m
At 1 January	**301.4**	139.6
Earned from generation	**652.5**	658.2
Purchased from third-parties	**486.3**	361.3
Utilised by the Customers business	**(394.1)**	(320.7)
Sold to third-parties	**(858.3)**	(537.0)
At 31 December	**187.8**	301.4

Recognition of revenue from the sale of renewable certificates is described in further detail in note 2.2.

3.4 Inventories

The Group holds inventories of fuels and other consumable items that are used in the process of generating electricity, and raw materials used in the production of biomass pellets and waste pellets. This note shows the cost of biomass, coal, other fuels and plant consumables held at the reporting date.

Accounting policy

The Group's raw materials and fuel inventory are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of purchased fuel inventories includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes, and transport and handling costs. The Group uses forward foreign exchange contracts to hedge the costs of fuel denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the inventory cost is recognised at the hedged value, to the extent these hedges are effective, and all such gains and losses are included in cost of sales when they arise.

Both biomass and coal inventories are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing inventory volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure these measurements are sufficiently accurate.

The characteristics of biomass require specialist handling and storage. Biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass inventory is surveyed using regularly calibrated radar scanning technology to validate the accuracy of the weights and efficiency methods outlined above.

The cost of manufactured fuel inventories includes all direct costs incurred in production and conversion including raw materials, labour, direct overheads and other costs incurred in bringing the inventories to their existing condition and location. It also includes an allocation of overheads, including depreciation and other indirect costs. Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overheads, are excluded from the cost of inventories and expensed as incurred.

The valuation of fibre inventory involves estimations of the conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required, using conversion factors estimated by management. Internal inventory counts are performed periodically at all locations.

Section 3: Operating assets and working capital continued

3.4 Inventories continued

	As at 31 December	
	2022 £m	2021 £m
Biomass – finished goods	**294.5**	144.6
Biomass – fibre and other raw materials	**16.5**	12.8
Coal	**–**	8.4
Other fuels and consumables	**37.1**	33.3
Total inventories	**348.1**	199.1

The net realisable value of coal in the prior year in the table above was stated after provisions of £0.9 million. No inventory provisions have been recognised in the current year.

The increase in the value of biomass finished goods held at the reporting date results from the planned build-up of inventories due to the reprofiling of generation into winter from summer when it was originally planned, along with higher biomass prices.

At the request of the UK Government, the Group entered into an agreement with National Grid to keep the two coal units at Drax Power Station available to provide a "winter contingency" service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and only operate if and when instructed to do so by National Grid. Under the terms of this contract, the Group no longer has control of any coal inventory.

The cost of inventories recognised as an expense in the year ended 31 December 2022 was £1,587.9 million (2021: £1,352.0 million). This includes the value of write downs of inventory in the year.

3.5 Trade and other receivables and contract assets

Trade receivables represent amounts owed by customers for goods or services provided that have been invoiced for but have not yet been paid. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered to customers that will be invoiced the following month.

Accounting policy

Trade and other receivables are initially measured at the transaction price and subsequently measured at amortised cost.

The Group has access to a receivables monetisation facility under which amounts receivable can be sold to a third-party on a non-recourse basis. Receivables sold under such facilities are accounted for at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9, due to the objective of the business model being achieved by both collecting contractual cash flows and the selling of the financial assets. These receivables are derecognised at the point of sale which is shortly after the initial recognition of the receivable balance. As a result, no fair value gains or losses have been recognised. Fees are recognised in the Consolidated income statement as incurred within interest payable and similar charges. At 31 December 2022, the receivables sold under this facility were £400.0 million (2021: £200.0 million), reflecting the increase in the size of the facility during the year. Refer to note 4.3 for further information about the facility.

Contingent consideration receivable is a financial asset. As the cash flows are not solely payments of principal and interest, it does not meet the criteria for recognition at either amortised cost or FVOCI, and is therefore recognised at fair value through profit and loss (FVTPL).

The UK Government introduced the Energy Bill Relief Scheme (EBRS) from 1 October 2022 to 31 March 2023. Energy supplied to non-domestic customers in this period has a discount applied under the EBRS. The Group claims this discount back from the Government. The amount the Group is entitled to claim from the Government is either recognised in other receivables, if it has been claimed but has not yet been received from the Government, or accrued income if not yet claimed at the reporting date. See note 2.2 for details of energy supplied under the EBRS within the Consolidated income statement.

	As at 31 December	
	2022 £m	2021 £m
Amounts falling due within one year:		
Trade receivables	**276.6**	187.5
Accrued income	**522.5**	270.3
Prepayments	**127.7**	97.4
Other receivables	**272.8**	59.0
Contingent consideration	**27.4**	27.7
Total trade and other receivables and contract assets	**1,227.0**	641.9

At 31 December 2022, the Group had no amounts receivable from significant counterparties which represented 10% or more of total trade receivables and accrued income (2021: one significant counterparty).

3.5 Trade and other receivables and contract assets continued

Of total trade receivables and accrued income at 31 December 2022, £587.0 million (2021: £314.0 million) relates to the Customers business, £168.0 million relates to the Generation business (2021: £125.9 million), and £44.1 million (2021: £17.9 million) relates to the Pellet Production business.

The contingent consideration relates to the Group's disposal of the CCGT generation portfolio in January 2021. Should the acquirer satisfy certain triggers in respect of the option to develop the land at the Damhead Creek 2 site, which was disposed of as part of this sale, £29.0 million of contingent consideration would become payable to the Group from the acquirer. The estimated fair value of this contingent consideration is £27.4 million (2021: £27.7 million). Contingent consideration is disclosed within current assets, however, the timing of receipt would be dependent on when a trigger was to occur, which may be in a period greater than 12 months from the end of the reporting period. See note 7.1 for further details on the contingent consideration.

Accrued income includes contract assets which relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where payment is not yet due. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. Contract assets at 31 December 2022 were £20.0 million (2021: £6.0 million).

Impairment of financial assets

Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables and accrued income (including contract assets) is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and, therefore, have substantially the same risk characteristics as trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

The greatest concentration of credit risk exists in the Customers business. For the larger consumers within the Customers business (and also customers within the Generation and Pellet Production businesses) a provision matrix method is adopted. For the SME consumers within the Customers business, the risk is higher due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is complex and requires a provisioning tool that is more dynamic than the provision matrix method and so a combined probability method is applied. Both of these approaches are described in more detail below.

Under the Group's debt recovery strategy, a breach in terms could lead to the customer being disconnected or pursued legally for recovery of the balance. The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt on an account is exclusively greater than 365 days past due and active recovery attempts have failed, or where there are known insolvency issues relating to the customer.

Combined probability method

The Group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of debt on an individual account basis using a broad range of indicators that are specific to the customer. The algorithm forms predictions, based on historical experience, of the debt on each account reaching greater than 365 days past due. A timeframe of 13 months is the normal period of historic data to which the algorithm is trained. The customer's behaviours and performance in this period inform the current provisioning for the existing debt portfolio.

As required by IFRS 9, the calculation of expected credit losses incorporates both historical and forward-looking information. Management considers the 13 month period on which the algorithm is trained and determines whether any additional provision is required as a result of specific factors or forward-looking macro-economic conditions. At 31 December 2022, these factors included, but were not limited to, expectations around future inflation and interest rates, customer pricing and the impact of Government support for customers. In the current period, management concluded that no additional provision was required (2021: no additional provision was required).

Section 3: Operating assets and working capital continued

3.5 Trade and other receivables and contract assets continued

Provision matrix method

Larger consumers within the Customers business and customers within the Generation and Pellet Production businesses are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection.

The movement in the overall allowance for expected credit losses on trade receivables is presented in the following table:

	2022			2021		
	Combined probability method £m	**Provision matrix method £m**	**Total £m**	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	**44.4**	**2.2**	**46.6**	51.4	5.0	56.4
Amounts written off	**(39.7)**	**(2.6)**	**(42.3)**	(41.5)	(2.0)	(43.5)
Net additional amounts provided against	**50.2**	**6.4**	**56.6**	34.5	(0.8)	33.7
At 31 December	**54.9**	**6.0**	**60.9**	44.4	2.2	46.6
Gross trade receivables	**189.1**	**148.4**	**337.5**	144.1	90.0	234.1
Average Expected Credit Loss %	**29%**	**4%**	**18%**	31%	2%	20%

The provision above relates to trade receivables in the Customers business. If the calculated provision rates were 10% higher than the provision rates calculated at the reporting date, the impact to the provision would be an increase of £4.0 million. The provision matrix method has resulted in a £nil provision applied to both Generation and Pellet Production businesses.

The risk of default within the Pellet Production and Generation businesses is considered to be remote. This is supported by strong historic collection rates and timely receipts.

The Pellet Production business has a remote risk of default because the external customer base are high-quality counterparties with long-term supply contracts. Furthermore, invoices are usually settled within seven days with negligible levels of aged debt.

The current economic environment and pressure on energy markets resulted in significantly higher commodity prices during 2022, and in turn higher bills raised to some of the Group's customers. This has resulted in an increase in the total gross value of trade receivables and thus increased the value of the expected loss provision, particularly for SME customers. Prices for the deemed customer portfolio have seen the most significant increases. Deemed supply is where electricity or gas is supplied to a site or customer that is yet to enter into a contract and, as a result, they are charged on a standard variable tariff based on merchant power and gas prices. Given the increases in these standard variable prices during the year, the recoverability of these balances has become more challenging. The expected credit loss provision has been updated to reflect this change. The coverage levels of the provision are in line with the outturn performance experienced during Covid-19, a period which was also significantly impacted by challenging macro-economic conditions.

In October 2022, in response to the significant increase in energy prices, the Government introduced support for non-domestic customers through the EBRS. This has provided financial support to customers during this period as described in more detail in note 2.2. The Group received no incremental revenue over that to which it was contractually entitled, due to this scheme.

The net charge to the Consolidated income statement in 2022 for impairment losses on financial assets was £48.0 million (2021: £16.3 million). This is the net of the additional amounts provided against in relation to trade receivables of £56.6 million (2021: £33.7 million) less an £8.6 million (2021: £17.4 million) benefit in the period in respect of resolution of legacy credit balances.

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for SME consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December:

	2022		2021	
Probability of default range %	**Estimated gross carrying amount at default £m**	**Lifetime expected credit losses £m**	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m
80–100	**50.0**	**40.4**	43.3	35.3
50–79	**16.8**	**8.9**	10.7	5.7
26–49	**18.2**	**5.5**	11.1	3.3
0–25	**104.1**	**0.1**	79.0	0.1
Total	**189.1**	**54.9**	144.1	44.4

3.5 Trade and other receivables and contract assets continued

The value of provisions calculated using the Group's provision matrix method is set out below. This shows the risk profile in 30-day increments of the trade receivables within the Generation and Pellet Production businesses, the trade receivables of the Group's larger consumers within the Customers business, and accrued income (including contract assets) of the Group at each reporting date.

	As at 31 December 2022			As at 31 December 2021		
	Lifetime expected credit losses	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime expected credit losses	Estimated total gross carrying amount at default	Expected credit loss rate
	£m	£m	%	£m	£m	%
Accrued income balances not yet due	**7.6**	**530.1**	**1%**	8.6	278.9	3%
Trade receivables days past due:						
Balances not yet due	**1.8**	**115.0**	**2%**	0.4	70.8	1%
Between 0-30 days	**0.8**	**22.1**	**4%**	0.1	14.0	1%
Between 31-60 days	**0.7**	**3.3**	**21%**	0.2	1.2	17%
Between 61-90 days	**0.6**	**1.5**	**42%**	0.1	0.8	13%
Over 90 days	**2.1**	**6.5**	**33%**	1.4	3.2	44%
Trade receivables total	**6.0**	**148.4**	**4%**	2.2	90.0	2%
Total	**13.6**	**678.5**	**2%**	10.8	368.9	3%

The expected credit loss provision of £13.6 million (2021: £10.8 million) in the table above wholly relates to the Customers business. The expected credit loss rates above are expressed as a percentage of the gross carrying amount of all of the Group's trade receivables and accrued income balances that are subject to the provision matrix method.

The expected credit loss provision calculated for other financial assets of the Group was negligible.

Credit and counterparty risk are disclosed in further detail in note 7.2.

3.6 Contract costs

The Group incurs costs of obtaining contracts in the Customers business.

Accounting policy

Management expects that incremental broker fees paid to intermediaries as a result of obtaining electricity and gas contracts are recoverable. The Group has therefore capitalised them as contract costs at the point the fee is paid. The fees are amortised over the contract period in line with the recognition of revenue and are charged to cost of sales. The balance is included within prepayments in note 3.5. This amount includes both current and non-current balances. The reconciliation from opening to closing contract costs is as follows:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	**23.7**	40.1
Additions	**30.7**	14.0
Amortisation	**(24.6)**	(30.4)
At 31 December	**29.8**	23.7

Section 3: Operating assets and working capital continued

3.7 Trade and other payables and contract liabilities

Trade and other payables represent amounts the Group owes to its suppliers for trade purchases and ongoing costs, taxes and social security amounts due in relation to the Group's role as an employer, and other creditors that are due to be paid in the ordinary course of business. The Group makes accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current period (e.g. fuel received but for which the Group has not yet been invoiced). Contract liabilities represent the Group's obligation to transfer goods and services to its customers whereby the Group has already received the consideration in advance or where the amount is due from the customer at the reporting date.

Accounting policy

Trade and other payables are measured at amortised cost.

The Group facilitates a supply chain finance scheme, a form of reverse factoring under which certain suppliers can obtain early access to payments. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to cease. The amount due is recognised in trade payables.

The Group also has access to payment facilities, utilised to leverage scale and efficiencies in transaction processing. Under these facilities the Group benefits from an extension to payment terms of less than 12 months for a small fee. The original liability is derecognised and the amount due to the facility provider is recognised in other payables. Fees are either recognised in the Consolidated income statement, or capitalised if they are directly attributable to the construction of a qualifying asset, in the period incurred.

The Group does not include trade and other payables in its calculation of Net debt (see note 2.7).

	As at 31 December	
	2022 £m	2021 £m
Trade payables	**152.9**	147.8
Fuel accruals	**107.7**	50.3
Energy supply accruals	**511.4**	362.1
Other accruals	**370.9**	269.8
Other payables	**351.0**	366.5
Contract liabilities	**34.0**	14.6
Total Trade and other payables and contract liabilities	**1,527.9**	1,211.1

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables are the same as their fair values, due to their short-term nature.

Trade payables includes £53.9 million (2021: £50.4 million) related to reverse factoring. Other payables includes £214.5 million (2021: £62.2 million) due under other payment facilities which includes amounts due under deferred letters of credit in respect of the construction of the Group's three OCGT assets that obtained a Capacity Market contract.

Energy supply accruals includes £315.0 million (2021: £264.3 million) in relation to the Group's obligation to deliver ROCs arising from activities in the Customers business. The remaining balance principally comprises third-party grid charge accruals of £108.5 million (2021: £48.2 million) and Feed-in-Tariff accruals of £46.8 million (2021: £19.8 million). Energy supply accruals have increased as a result of both higher supply volumes and higher prices.

Other accruals includes £11.1 million (2021: £39.3 million) in respect of the Group's estimated obligation to deliver carbon emissions allowances under the UK Emission Trading Scheme (UK ETS). Allowances are purchased in the market and are recorded at cost.

Other accruals also includes accruals for capital and operating expenditure where the invoices have not yet been received.

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the contract. The balance reduces as revenue is subsequently recognised in the following periods, offset by further advanced consideration received. Additions in the year include £14.4 million in the Generation business in relation to the winter coal contract with the National Grid to provide a 'winter contingency' service to the UK power system. The reconciliation of opening to closing contract liabilities is as follows:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	**14.6**	11.1
Revenue recognised in the year that was included in the contract liability at the start of the period	**(6.6)**	(5.4)
Additions as a result of cash received from customers in the period not yet recognised in revenue	**26.0**	8.9
At 31 December	**34.0**	14.6

3.8 Climate change

Climate change, and tackling it, is pervasive to the Group's purpose, as set out in the Strategic report on pages 2 to 91. The Sustainable development report, starting on page 36 sets out how the Group's ambition is to be climate positive and the TCFD disclosures, starting on page 52, set out the Group's approach to managing climate risks, including scenario analysis. Climate change is factored into short, medium and long-term forecasts and estimates used by the Group.

Several areas of the Consolidated financial statements have climate considerations in relation to them, namely:

Area	Description	Page reference
Judgements in relation to key sources of estimation uncertainty	Impairment of assets, UELs of property, plant and equipment and capitalisation of development project costs are all sensitive to climate change. Please see further details below.	178
Impairment of assets	The Group's expectations around the impacts of climate change, and in particular the requirements of the UK Government's commitment to reach net zero by 2050, are integral to the forecasts used to underpin the Group's impairment analyses. For example, the forward power price curves used take into account expectations regarding the impact of climate change and the changing mix of generating assets on the UK power system. Governmental and societal responses to climate change are still developing, and therefore financial statements cannot capture all potential future scenarios as these are not yet known. This presents uncertainty around future cashflows from an IAS 36 perspective. Sensitivities modelled, including around biomass acceptability, seek to capture some of these potential scenarios. Also, operational outages, whether caused by climate related events or other factors, are some of the sensitivities modelled in the impairment testing.	194
Going concern and viability	As above, forecast power prices and operational outages are also incorporated into the going concern and viability assessments.	176 for going concern and 75 for viability
Fixed asset UELs	Climate impacts are one of the factors assessed in determining how long the Group anticipate both additions and existing assets to operate for. For example, the OCGT assets under development will be given a UEL commensurate with the Group's expectations around the UK's transition to a net zero position by 2050. Although, as outlined in the Key sources of estimation uncertainty, the likelihood is that UELs at Drax Power Station will be extended, were UELs to be shortened by 10 years, whether as a result of climate change or otherwise, depreciation would increase by approximately £65 million per year.	210

Section 4: Financing and capital structure

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, short-term bank deposits with a maturity of three months or less, and money market funds. The carrying amount of these assets is approximately equal to their fair value. It is the Group's policy to invest available cash on hand in short-term, low-risk bank accounts or deposit accounts.

	As at 31 December	
	2022 £m	2021 £m
Cash at bank	**102.1**	35.9
Short-term deposits	**19.5**	23.7
Money market funds	**116.4**	257.8
Total cash and cash equivalents	**238.0**	317.4

Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when contracts are settled and the collateral is returned.

At 31 December 2022, net postings of £234.0 million had been made to counterparties (2021: £172.8 million of net receipts from counterparties) to support energy hedging activity. Cash collateral payments of £234.0 million (2021: £32.8 million) were recognised in other receivables and £nil (2021: £205.6 million) of cash collateral receipts were recognised in other payables. The increase in cash collateral payments is predominantly due to the significant price increases seen in the power, gas and carbon markets as well as an increase in the use of collateralised exchange based trading. See note 7.6 and 4.3 for details on collateral requirements the Group has met through its available non-cash credit facilities.

4.2 Borrowings

Accounting policy

The Group measures all debt instruments (whether financial assets or financial liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the expected life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees payable to the lender that entitle the Group to draw down at any time over a fixed period, with a fixed repayment date regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down if draw down is probable. Loan commitment fees payable to the lender that entitle the Group to draw down at any time over a fixed period, where the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and are recognised over the life of the instrument as part of the effective interest rate if draw down is probable. If drawdown is not probable then loan commitment fees are recognised on a systematic basis over the period the Group is able to draw down.

Fees that are paid for the availability of a facility where the amount and timing of draw down can vary at the Group's discretion, such as a revolving credit facility (RCF), are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses being recognised as a component of foreign exchange gains or losses in the period they arise. The Group hedges foreign currency risk and interest rate risk in accordance with the policies set out in note 7.2. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the Consolidated balance sheet. Where hedge accounting is applied to foreign exchange risk and interest rate risk on debt instruments, gains and losses are recycled to the Consolidated statement of comprehensive income within either foreign exchange gains/(losses) or interest payable and similar charges, to match the exposure they are hedging, where effective. The borrowings amounts disclosed in the tables below exclude any impact of hedging instruments.

4.2 Borrowings continued

The Group's net borrowings at each reporting date were as follows:

	As at 31 December	
	2022 £m	2021 £m
Secured borrowings at amortised cost:		
2.625% loan notes €250m[1]	**219.8**	207.2
6.625% loan notes $500m[2]	**412.8**	367.0
Index-linked loan £35m[3]	**–**	40.6
UK infrastructure private placement facilities (2019)[4]	**372.5**	370.0
UK infrastructure private placement facilities (2020)[5]	**207.9**	201.2
CAD term facility C$300m[6]	**183.6**	175.0
Unsecured borrowings at amortised cost:		
Uncommitted short-term loan facility €50m[7]	**44.3**	–
Total borrowings	**1,440.9**	1,361.0
Split between:		
Current liabilities	**44.3**	40.6
Non-current liabilities	**1,396.6**	1,320.4

(1) These loan notes mature in 2025. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.6%.
(2) These loan notes mature in 2025. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.9%.
(3) The index-linked loan facility matured in March 2022. On maturity the principal amount of £35 million plus £6.4 million of indexation was repaid wholly from cash reserves.
(4) These comprise committed facilities totalling £375 million with a range of maturities extending out to between 2024 and 2029. Interest rate swaps have been used to fix floating rates. This equates to an effective sterling interest rate of 3.3%.
(5) These comprise committed facilities totalling £98 million and €126.5 million with a range of maturities extending out to between 2024 and 2030. Interest rate swaps have been used to fix sterling floating rates on sterling facilities. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments on euro facilities. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 2.5%.
(6) This facility matures in 2024 with the option to extend by two years and has a customary margin grid reference over the Canadian Dollar Offered Rate (CDOR). No interest rate or cross-currency interest rate swaps are in place to hedge the facility, so the Group is exposed to movements in both floating interest rates and movements in the Canadian dollar.
(7) This is an uncommitted short-term facility with a maturity term of one month, however this term may be extended at the option of the lender. The average fixed interest rate for this facility is 2.4%.

The Group has a committed £300 million RCF and C$10 million RCF. These had no cash drawings as at 31 December 2022 or 31 December 2021. The Group has never had cash drawings under this facility since its inception, three years ago. The Group also has access to certain non-recourse trade receivable monetisation facilities and payment facilities, as described in note 4.3, which are utilised to accelerate working capital cash inflows and defer cash outflows.

In December 2022, the Group secured a new £200 million committed liquidity facility with banks within its lending group. This facility provides an additional source of liquidity to the Group's existing undrawn RCFs, over the 12 months following the reporting date. This facility was temporarily drawn during December, to support optimisation of generation and associated cash collateral postings, but was undrawn at 31 December 2022. The Group has a €50 million uncommitted facility that was drawn during the second half of 2022 and at 31 December 2022 €50 million remained drawn (2021: £nil). This facility was also drawn to support optimisation of generation and associated cash collateral postings. See note 2.7 for further details on the Group's cash and committed facilities.

The Group's secured borrowings are secured against the assets of a number of the Group's subsidiaries, with the exception of property owned by the US subsidiaries.

The weighted average interest rate payable at the reporting date on the Group's borrowings was 4.14% (2021: 3.49%).

Compliance with loan covenants

The Group has customary financial covenants, principally in relation to consolidated net income and the consolidated net income to debt ratio. The consolidated net income to debt ratio broadly equates to an EBITDA to Net debt calculation and is calculated in line with the Group's financial covenant requirements in the loan facility agreements[1]. The Group is required to test its financial covenants every six months at financial full-year and half-year reporting periods, and has complied with all financial covenants during the current and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants in future periods under all reasonably possible downside scenarios. See the Viability statement on page 75 for further details on the scenarios considered. The Group also has conditions placed on its dividend payments as a result of the financing facilities.

(1) The net debt calculation for financial covenants is based on Net debt including cash and borrowings attributable to non-controlling interests, but excludes the impact of hedging.

Section 4: Financing and capital structure continued

4.2 Borrowings continued

Reconciliation of borrowings

The table below shows the movement in borrowings during the current and previous year:

	Year ended 31 December 2022		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	**1,376.2**	**(15.2)**	**1,361.0**
Cash movements:			
Repayment of Index-linked loan	**(41.4)**	**–**	**(41.4)**
Draw down of facilities	**188.5**	**–**	**188.5**
Repayment of facilities	**(145.0)**	**–**	**(145.0)**
Non-cash movements:			
Indexation of linked loan	**0.8**	**–**	**0.8**
Amortisation of deferred finance costs (note 2.5)	**–**	**6.1**	**6.1**
Amortisation of USD loan note premium	**(0.4)**	**–**	**(0.4)**
Effect of changes in foreign exchange rates	**71.1**	**0.2**	**71.3**
Borrowings at 31 December	**1,449.8**	**(8.9)**	**1,440.9**

	Year ended 31 December 2021		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,085.3	(19.6)	1,065.7
Cash movements:			
Drawdown of 2020 Infrastructure private placement facilities	130.8	(0.5)	130.3
Repayment of debt acquired from Pinnacle	(253.1)	–	(253.1)
Drawdown of C$300m term facility	173.1	(0.8)	172.3
Other cash movements	(3.2)	–	(3.2)
Non-cash movements:			
Borrowings acquired on acquisition of Pinnacle (note 5.1)	256.3	–	256.3
Indexation of linked loan	2.2	–	2.2
Amortisation of deferred finance costs (note 2.5)	–	5.7	5.7
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of changes in foreign exchange rates	(14.9)	–	(14.9)
Borrowings at 31 December	1,376.2	(15.2)	1,361.0

As disclosed above, the Group has a number of cross-currency interest rate swaps that fix the principal repayment of certain foreign currency denominated borrowings. Accordingly, the foreign exchange losses (2021: gains) on borrowings disclosed in the above tables have been offset by £62.0 million of foreign exchange gains (2021: 21.2 million of losses) on cross-currency interest rate swaps that have been recycled to profit and loss as part of the hedging relationship. See note 2.7 for further details of the impact of the Group's cash flow hedging relationships on Net debt.

4.3 Notes to the consolidated cash flow statement

Accounting policy

In accordance with IAS 7 the Group has elected to classify cash flows from interest paid and interest received as cash flows from operations, dividends paid as cash flows from financing activities, and dividends received as cash flows from investing activities. The interest repayment on lease liabilities is included within interest paid, and the lease principal repayment is presented within cash flows from financing activities.

Cash generated from operations

Cash generated from operations is the starting point of the Group's Consolidated cash flow statement on page 185. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit for the year to the amount of cash generated from the Group's operations.

	Year ended 31 December	
	2022 £m	2021 £m
Profit for the year – continuing	**82.5**	55.1
Profit for the year – discontinued	**–**	24.1
Adjustments for:		
Interest payable and similar charges	**83.1**	70.9
Interest receivable	**(4.3)**	(0.3)
Tax (credit)/charge	**(4.4)**	68.1
Research and development tax credits	**(5.5)**	(7.5)
Income from associates	**(0.5)**	(0.3)
Depreciation of property, plant and equipment	**187.7**	149.8
Amortisation of intangible assets	**31.4**	34.4
Depreciation of right-of-use assets	**20.3**	15.2
Impairment of non-current assets	**41.5**	–
Losses on disposal of fixed assets	**5.5**	9.4
Gain on disposal of subsidiaries	**–**	(16.2)
Other losses	**0.3**	–
Certain remeasurements of derivative contracts[1]	**288.7**	(74.6)
Non-cash charge for share-based payments	**9.6**	7.4
Effect of changes in foreign exchange rates	**(2.2)**	1.3
Operating cash flows before movement in working capital	**733.7**	336.8
Changes in working capital:		
(Increase)/decrease in inventories	**(133.4)**	37.4
Increase in receivables	**(379.0)**	(27.4)
Increase in payables	**431.8**	15.0
Net movement in collateral[2]	**(406.8)**	168.3
Decrease in provisions	**(29.1)**	(4.2)
Decrease/(increase) in renewable certificate assets	**113.7**	(161.8)
Total cash (absorbed by)/released from working capital	**(402.8)**	27.3
Net movement in defined benefit pension obligations[3]	**(10.6)**	(9.6)
Cash generated from operations	**320.3**	354.5

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the Consolidated income statement and their subsequent cash realisation. It also includes the cash and non-cash impact of deferring and recycling gains and losses on derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve and then released to the Consolidated income statement in the period the hedged transaction occurs.

(2) The £168.3 million increase in collateral received in the prior year has been re-presented. Previously this was included in the movement in receivables as a £30.6 million increase and movement in payables as a £198.9 million increase.

(3) The comparative figure has been re-presented to combine the defined benefit scheme current and past service costs and contributions into a net defined benefit pension obligation.

The Group has generated cash from operations of £320.3 million during the year (2021: £354.5 million). This resulted from a cash inflow from operating activities before working capital of £733.7 million (2021: £336.8 million). This was offset by a £10.6 million (2021: £9.6 million) cash outflow in respect of pension obligations and a net working capital outflow of £402.8 million (2021: £27.3 million inflow), principally due to collateral payments. The most significant factors making up these cash movements are explained in further detail below.

The £288.7 million adjustment for certain remeasurements of derivative contracts (2021: £(74.6) million adjustment) in the current year predominantly relates to net unrealised losses recognised within the Consolidated income statement, where cash has not yet been paid or received by the Group. These net unrealised losses were offset by a net cash outflow due to realised losses on maturing trades.

4.3 Notes to the consolidated cash flow statement continued

From time to time, where market conditions change, the Group can rebase foreign currency contracts including cross-currency interest rate swaps. Rebasing trades accelerates certain cash flows at the point of rebasing that would have been received on maturity or at contractual payment dates per the original terms of the trade. There is an equal and opposite reduction in cash flows (less rebasing fees) on the original maturity or contractual payment dates. At 31 December 2022 the Group had accelerated £43.1 million of cash flows through the use of rebasing (2021: £48.1 million). The reduction in accelerated cash flows reflects the unwinding of the cash benefit as the original maturity or contractual payment dates pass. The accelerated cash flows related wholly to rebased cross-currency interest rate swaps in the current and prior year. The impact of rebasing is reflected within the Certain remeasurements of derivative contracts line in the table above.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables, inventories and renewable certificate assets to make sure the working capital committed is closely aligned with operational requirements. The impact of these actions on the cash flows of the Group is explained further below.

High levels of volatility in power and commodity markets have continued during 2022. Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when contracts are settled and the collateral is returned.

The Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2022 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of posting collateral, such as being able to utilise letters of credit and surety bonds to meet collateral requirements, aims to minimise cash outflows resulting from collateral requirements where possible. The Group has had a net cash outflow of £406.8 million during the year due to collateral (2021: £168.3 million inflow). At 31 December 2022 the Group held £nil in cash collateral receipts (2021: £205.6 million) recognised in payables and had posted £234.0 million (2021: £32.8 million) of cash collateral payments recognised in receivables. The Group also had £54.5 million (2021: £42.5 million) of letters of credit and £165.0 million (2021: £107.1 million) of surety bonds utilised covering commodity trading collateral requirements. Letters of credit and surety bonds utilised at the reporting date have reduced the requirement for cash collateral payments, which has reduced the amount by which receivables has increased. See notes 4.1 and 7.6 for further details on cash collateral receipts and non-cash collateral postings respectively.

The £379.0 million (2021: £27.4 million) cash outflow due to an increase in receivables in 2022 is predominantly related to the Customers business as a result of higher power and gas prices during the year, resulting in higher amounts receivable from customers.

The Customers business has access to a facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis. The Group has refinanced this facility during the year, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million from £200.0 million. The Group also agreed a further increase to the £300.0 million limit, to £400.0 million, for the period November 2022 to January 2024. Utilisation of the facility was £400.0 million at 31 December 2022 (2021: £200.0 million). The additional utilisation of this facility has resulted in a £200.0 million cash inflow which has offset the increase in receivables described above to lead to the net £379.0 million cash outflow.

The movement in renewable certificate assets during the year includes a combination of generation, utilisation, purchases and sales, as described in note 3.3. The £113.7 million cash inflow is predominantly due to the Group's use of standard renewable certificate sale and renewable certificate purchase arrangements. Cash from renewable certificates, and in particular ROCs, is typically realised several months after they are earned; however, through these arrangements, the Group is able to accelerate cash flows over a proportion of these assets. At 31 December 2022 the Group had accelerated £331.2 million of cash flows using these standard renewable certificate sales (2021: £199.8 million). This cash inflow was offset by a net cash outflow as a result of renewable certificates generated and still held by the Group.

The Group had a £431.8 million (2021: £15.0 million) cash inflow due to an increase in payables during the year. This increase is predominantly due to increased levels of power repurchases within the Generation business in the current year, as well as higher accruals as a result of both increased volumes and higher prices in the Customers business.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. The Group's suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. At 31 December 2022, the Group had trade payables of £53.9 million (2021: £50.4 million) related to reverse factoring. The facility does not directly impact the Group's working capital, as payment terms remain unaltered with the Group and would remain the same should the facility fall away.

The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms of less than 12 months. The amount outstanding under these facilities at 31 December 2022 was £214.5 million (2021: £62.2 million) resulting in a cash inflow of £152.3 million. Utilisation of these payment facilities has reduced the cash outflow in the purchases of property, plant and equipment line in the Consolidated cash flow statement by £64.6 million and has also impacted the movement in payables line in the table above by £87.7 million.

The cash outflow of £133.4 million as a result of the increase in inventories results in part from the planned build-up of inventories due to the reprofiling of generation from summer into winter.

4.3 Notes to the consolidated cash flow statement continued

Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash movements is provided below:

	As at 31 December 2022		
	Borrowings £m	**Lease liabilities £m**	**Total £m**
Balance at 1 January	**1,361.0**	**125.9**	**1,486.9**
Cash flows from financing activities	**2.1**	**(18.0)**	**(15.9)**
Effect of changes in foreign exchange rates	**71.3**	**11.5**	**82.8**
Other movements	**6.5**	**33.7**	**40.2**
Balance at 31 December	**1,440.9**	**153.1**	**1,594.0**

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,065.7	30.2	1,095.9
Cash flows from financing activities	46.3	(13.2)	33.1
Effect of changes in foreign exchange rates	(14.9)	2.7	(12.2)
Other movements	7.6	45.1	52.7
Acquisition of subsidiary	256.3	61.1	317.4
Balance at 31 December	1,361.0	125.9	1,486.9

Other movements principally relate to the amortisation of deferred finance costs, discounting of lease liabilities and lease additions in the year.

4.4 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Issued equity

	As at 31 December	
	2022 £m	2021 £m
Issued and fully paid:		
2022: 414,872,491 ordinary shares of $11\,^{16}/_{29}$ pence each (2021: 413,068,027)	**47.9**	47.7

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2022 (number)	2021 (number)
At 1 January	**413,068,027**	410,848,934
Issued under employee share schemes	**1,804,464**	2,219,093
At 31 December	**414,872,491**	413,068,027

The Company has only one class of shares, which are ordinary shares of $11\,^{16}/_{29}$ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. Throughout the year, shares were issued in satisfaction of options vesting in accordance with the rules of the Group's employee share schemes (see note 6.2).

Section 4: Financing and capital structure continued

4.4 Equity and reserves continued

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued, net of incremental transaction costs and tax, that are directly attributable to the issue of new shares. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	**432.2**	430.0
Issue of share capital	**1.1**	2.2
At 31 December	**433.3**	432.2

Other reserves

Other equity reserves reflect the impact of certain historical transactions, which are described under the table below:

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Treasury shares £m	Total other reserves £m
At 1 January 2021	1.5	35.4	710.8	(50.4)	697.3
Exchange differences on translation of foreign operations	–	8.7	–	–	8.7
At 1 January 2022	**1.5**	**44.1**	**710.8**	**(50.4)**	**706.0**
Exchange differences on translation of foreign operations	**–**	**42.4**	**–**	**–**	**42.4**
Exchange differences on acquisition of interest in Alabama Pellets LLC	**–**	**(0.7)**	**–**	**–**	**(0.7)**
At 31 December 2022	**1.5**	**85.8**	**710.8**	**(50.4)**	**747.7**

The capital redemption and treasury share reserves arose when the Group completed previous share buyback programmes. The 13.8 million shares held in the treasury share reserve have no voting rights attached to them.

Exchange differences relating to the translation of the net assets of the Group's US and Canadian subsidiaries from their functional currencies (USD and CAD) into sterling for presentation in these Consolidated financial statements are recognised in the translation reserve.

Movements in the hedge reserve and the cost of hedging reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9, are set out in notes 7.3 and 7.4.

4.5 Non-controlling interests

Accounting policy

In accordance with IFRS 3, the Group elects on an acquisition-by-acquisition basis whether to measure non-controlling interests (NCIs) at their proportionate share of the identifiable net assets of the acquiree at the acquisition date, or at fair value. The Group treats transactions with NCIs that do not result in a loss of control as transactions with equity owners of the Parent Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling interests and NCIs to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to NCIs and the fair value of any consideration paid or received is recognised in equity, within retained profits.

At 31 December 2022, the Group has two (2021: three) subsidiary undertakings with NCIs. These subsidiaries were acquired during the prior year through the acquisition of Pinnacle. During the year, the Group purchased the remaining 10% of NCI in Alabama Pellets LLC increasing the Group's interest in the subsidiary to 100%. See the Transactions with NCI section below for further information.

4.5 Non-controlling interests continued

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the results of each entity below that would be shown in the subsidiaries own financial statements prepared in accordance with IFRS, modified for Group level fair value adjustments at acquisition. The comparative amounts at 31 December 2021 have been re-presented to include the Group level fair value adjustments and these adjustments have no impact to cashflow. All amounts are presented before intercompany eliminations.

		As at 31 December 2022		As at 31 December 2021	
	Principal place of business	Non-controlling interest %	Non-controlling interests £m	Non-controlling interest %	Non-controlling interests £m
Alabama Pellets LLC	North America	0%		10%	7.2
Lavington Pellet Limited Partnership	North America	25%	7.7	25%	8.5
Smithers Pellet Limited Partnership	North America	30%	5.7	30%	5.8
Total			13.4		21.5

No dividends were paid to NCIs in the current or previous reporting period.

Summarised statement of total comprehensive income

	Year ended 31 December 2022					Re-presented Year ended 31 December 2021[2]				
	Revenue £m	Loss for the year £m	Loss for the year attributable to the non-controlling interests £m	Total comprehensive loss for the year £m	Total comprehensive loss attributable to the non-controlling interests £m	Revenue £m	Loss for the year £m	(Loss)/profit for the year attributable to the non-controlling interests £m	Total comprehensive loss £m	Total comprehensive (loss)/income attributable to the non-controlling interests £m
Alabama Pellets LLC[1]	39.5	(9.5)	(1.0)	(9.5)	(1.0)	25.6	(9.4)	(1.7)	(9.4)	(1.7)
Lavington Pellet Limited Partnership	36.5	(1.7)	(0.7)	(1.7)	(0.7)	29.3	(0.6)	0.1	(0.6)	0.1
Smithers Pellet Limited Partnership	13.0	(3.0)	(0.9)	(3.0)	(0.9)	11.8	(1.1)	(0.4)	(1.1)	(0.4)
Total	89.0	(14.2)	(2.6)	(14.2)	(2.6)	66.7	(11.1)	(2.0)	(11.1)	(2.0)

(1) The 2022 Summarised statement of total comprehensive income for Alabama Pellets LLC is for the period up to acquisition of the remaining NCI on 30 September 2022.
(2) The comparative amounts at 31 December 2021 have been re-presented to include Group level fair value adjustments.

Section 4: Financing and capital structure continued

4.5 Non-controlling interests continued

Summarised Balance sheet

	As at 31 December 2022					Re-presented As at 31 December 2021[1]				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m
Alabama Pellets LLC						120.4	14.7	(16.1)	(0.6)	118.4
Lavington Pellet Limited Partnership	27.7	6.8	(3.1)	(0.6)	30.8	29.1	6.9	(2.1)	(0.7)	33.2
Smithers Pellet Limited Partnership	17.3	1.8	(1.1)	–	18.0	17.1	2.0	(0.7)	–	18.4
Total	**45.0**	**8.6**	**(4.2)**	**(0.6)**	**48.8**	166.6	23.6	(18.9)	(1.3)	170.0

(1) The comparative amounts at 31 December 2021 have been re-presented to include Group level fair value adjustments.

Summarised Cash flow

	Year ended 31 December 2022				Year ended 31 December 2021			
	Net cash inflow/ (outflow) from operating activities £m	Net cash outflow from investing activities £m	Net cash (outflow)/ inflow from financing activities £m	Net cash inflow/ (outflow) £m	Net cash (outflow)/ inflow from operating activities £m	Net cash outflow from investing activities £m	Net cash inflow/ (outflow) from financing activities £m	Net cash (outflow)/ inflow £m
Alabama Pellets LLC					(2.9)	(47.9)	50.6	(0.2)
Lavington Pellet Limited Partnership	3.5	(0.7)	(2.2)	0.6	2.2	(0.5)	(0.1)	1.6
Smithers Pellet Limited Partnership	(1.9)	(0.2)	1.8	(0.3)	(0.7)	(2.5)	3.6	0.4
Total	**1.6**	**(0.9)**	**(0.4)**	**0.3**	(1.4)	(50.9)	54.1	1.8

Transactions with NCI

When the Group acquired Pinnacle during 2021, the NCI in Alabama Pellets LLC (APLLC) was 30%. In July 2021, the Group acquired a further 20% interest in APLLC for £21.5 million ($29.7 million), increasing the Group's total interest in APLLC to 90% and reducing the NCI to 10%. This resulted in a £0.2 million charge recognised in equity, within retained profits, for the difference between the adjustment to NCI and the fair value of any consideration paid. In September 2022, the Group acquired the remaining 10% of NCI in APLLC for £20.2 million ($22.2 million), resulting in the Group now owning 100% of APLLC. This resulted in a £9.3 million charge recognised in equity, within retained profits, for the difference between the adjustment to NCI and the fair value of any consideration paid, and a decrease in the translation reserve of £0.7 million.

The following table summarises the impact of changes in the Group's ownership of APLLC:

	Year ended 31 December 2022 £m
Carrying amount of non-controlling interest acquired	**10.2**
Consideration paid to non-controlling interest	**(20.2)**
Decrease in equity attributable to owners of the Parent Company	**(10.0)**

Further information on changes during the year in the Group's NCIs is given in the Consolidated statement of changes in equity.

Section 5: Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

5.1 Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired, and the liabilities assumed are measured at their fair value on the acquisition date. Amounts relating to the settlement of pre-existing relationships are recognised in the Consolidated income statement with a corresponding adjustment to the consideration transferred to reflect the fact that part of the consideration is deemed to relate to the settlement of the pre-existing relationship.

From the acquisition date, the assets and liabilities of acquired businesses are recognised in the Consolidated balance sheet, and the revenues and profit or loss of the acquired businesses are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period that they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred; less
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity;

over the fair value of the identifiable net assets acquired.

Share-based payment awards held by employees of the acquired business that are voluntarily replaced are recognised as post-acquisition remuneration. Share-based payment awards held by employees of the acquired business that are obliged to be replaced are allocated between post-acquisition remuneration, which is treated as an expense, and pre-acquisition remuneration, which is treated as part of the overall consideration.

Acquisition of Pinnacle

In the prior year the Group completed the acquisition of Pinnacle. The primary reason for the acquisition was to advance the Group's biomass strategy by more than doubling its production capacity, significantly reducing its cost of biomass production and adding a major biomass supply business underpinned by long-term sales contracts with high-quality Asian and European counterparties. The Group completed the acquisition on 13 April 2021. The purchase consideration was valued on a fully diluted equity basis at £222 million (C$385 million), a price of C$11.30 per share representing a premium of 13% based on the closing market price on 5 February 2021 of C$10.04 per share.

The purchase consideration consisted of the following:

	As at 13 April 2021 £m
Cash paid to ordinary shareholders	218.1
Cash paid to settle existing share-based payment awards	4.2
Total purchase consideration	222.3

There was no contingent consideration in relation to the acquisition.

Acquisition date fair values

The Group's one year measurement period from the acquisition date, to finalise the acquisition accounting, ended in the current reporting period. There were no changes to the provisional fair values of the identifiable assets acquired, liabilities assumed and NCI as at 13 April 2021 that were recognised in the 2021 Consolidated financial statements. Detailed below are the relevant acquisition values and the methods used to estimate them, as presented in the prior year.

	As at 13 April 2021 Fair value £m
Property, plant and equipment and intangible assets	326.2
Right-of-use assets	60.4
Other non-current assets	4.3
Inventories	26.8
Trade and other receivables	29.4
Cash and cash equivalents	18.8
Trade and other payables	(37.1)
Lease liabilities	(61.1)
Borrowings	(256.3)
Deferred tax liabilities	(12.1)
Other liabilities	(3.3)
Net identifiable assets acquired	96.0
NCI	(39.6)
Goodwill	165.9
Net assets acquired	222.3

Section 5: Other assets and liabilities continued

5.1 Business combinations continued

As part of the accounting for the Pinnacle acquisition, the assets and liabilities acquired were measured at fair value on the acquisition date. The valuation was performed by an independent valuation specialist. A fair value uplift of £23.6 million (C$40.8 million) was recognised on the carrying value of property, plant and equipment acquired as part of the acquisition. If different assumptions and inputs were used, this could have resulted in a different fair value.

The Pinnacle business held a number of long-term customer contracts at the acquisition date. As part of the acquisition accounting, these existing customer contracts were required to be measured at their fair value. In determining the fair value of these contracts, estimates were required for inputs to the valuation, such as the margin associated with these customer contracts, the required return for assets used to generate these contract revenues, retention rates, and an appropriate discount rate based on the risk profile of these contracts. A change to any of these inputs could significantly impact the fair value calculated for these customer contracts. A customer-related intangible asset with a fair value of £35.9 million (C$62.1 million) was recognised in relation to customer contracts at acquisition and is being amortised over its remaining UEL. See note 5.2 for further details of the valuation approach, the key valuation inputs, the carrying value and remaining amortisation period.

The Group and Pinnacle had a pre-existing relationship relating to long-term supply contracts under which Pinnacle supplied the Group with biomass pellets at a fixed price. On acquisition, the Group assessed the terms of these supply contracts compared to current market transactions for an identical contract. Pricing for current market transactions for the purpose of this exercise was assessed based on the existing portfolio of the Group and Pinnacle contracts. These supply contracts were determined to be consistent with the pricing for current market transactions for an identical contract and the settlement provision for terminating these contracts would have been immaterial. As a result, no consideration was attributed to the settlement of the pre-existing relationship and therefore no gain or loss relating to the pre-existing relationship was recognised in the prior year.

The fair values of the acquired property, plant and equipment, customer-related intangible asset and pre-existing relationship are inherently judgemental and involve a high degree of estimation, meaning valuations based on different methodologies or assumptions may have resulted in a materially different fair value. However, these valuations were performed by specialists, using appropriate methodologies and information.

Goodwill on acquisition predominantly related to the value of uncontracted revenues and synergies expected to be realised by combining Pinnacle with the Group's existing Pellet Production business. The increased size of the Group's Pellet Production business has enabled greater flexibility, opportunities to optimise the Group's operations and logistics across the enlarged portfolio and has increased knowledge. The goodwill is not deductible for tax purposes. Goodwill is required to be denominated in the functional currency of the operations to which the goodwill is allocated to. The goodwill on the Pinnacle acquisition relates to both CAD and USD functional currency operations. This resulted in goodwill of C$97.4 million and $151.9 million which, when translated at the acquisition date, resulted in £165.9 million of goodwill. These goodwill balances are translated at the rates prevailing at each reporting date into the Group's presentational currency of GBP (see note 5.2 for further details).

The NCI was measured at the proportionate share of the identifiable net assets of the acquiree at the acquisition date (see note 4.5 for further details on NCI).

5.1 Business combinations continued

Acquired receivables

The Group acquired receivables with a fair value and a gross contracted value of £22.9 million (C$39.6 million). No provision for receivables was recognised due to the risk of default within the Pinnacle business, as well as the wider Pellet Production business, being considered to be remote, as explained further in note 3.5.

Contingent liabilities

No contingent liabilities or indemnification assets were recognised on acquisition of Pinnacle.

Reconciliation of net cash outflow from investing activities

	Year ended 31 December 2021
	Cash outflow/ (inflow) £m
Cash paid to acquire Pinnacle	222.3
Less balances acquired:	
Cash	(18.8)
Net cash outflow	203.5

Acquisition of Princeton pellet plant

On 3 August 2022, the Group announced that it had signed an agreement with Princeton Standard Pellet Corporation (PSPC) to acquire its pellet plant in Princeton, British Columbia, Canada for consideration of £7.6 million (C$11.5 million), subject to customary working capital adjustments. The sale subsequently completed on 1 September 2022. The plant has nameplate capacity to produce 90kt of biomass pellets a year from sawmill residuals and will contribute to the Group's strategy to increase pellet production capacity.

In addition to the pellet plant itself, the Group also acquired certain other assets from PSPC including inventories and other working capital balances. As part of the transaction, the employees of PSPC joined the Group. Although the legal structure of the transaction was that of an asset purchase agreement, it was concluded that the substance of the transaction met the criteria of a business combination as defined by IFRS 3 and therefore the Group accounted for the transaction under the acquisition method.

The fair value of the assets and liabilities acquired were as follows:

	As at 1 September 2022 Fair values £m
Property, plant and equipment	7.9
Inventories	1.0
Trade and other receivables	0.8
Trade and other payables	(1.2)
Deferred tax liabilities	(0.9)
Net identifiable assets acquired	7.6

No goodwill arose from this transaction and no contingent liabilities or indemnification assets have been recognised.

The Group acquired receivables with a fair value and gross contracted value of £0.8 million.

No provision was recognised due to the risk of default within the Princeton business, as well as the wider Pellet Production business, being considered to be remote.

As the transaction is immaterial in its entirety, the full IFRS 3 disclosures are not presented in these Consolidated financial statements.

Section 5: Other assets and liabilities continued

5.2 Goodwill and intangible assets

Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the net assets acquired. Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets other than goodwill can be acquired in business combinations, purchased separately or internally developed.

Accounting policy

Goodwill is measured as the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity;

over the fair value of the identifiable net assets acquired.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of that operation and therefore denominated in the functional currency of the operation to which it is allocated. Goodwill denominated in a foreign currency is translated at the rate prevailing at each reporting date. Exchange differences arising on retranslation are recognised in the Consolidated statement of comprehensive income.

Goodwill is considered to have an indefinite useful life, is not depreciated, and is assessed annually for impairment (see note 2.4).

Intangible assets acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured initially at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated UELs, which are reviewed at each reporting date. No changes to UELs were made during the period. Amortisation calculations are specific to each category of assets and are explained in further detail below.

	Method of amortisation	Average UEL remaining 2022 (years)
Brand	Straight line	4
Customer-related assets:		
Opus Energy	Reducing balance	5
Pinnacle	Straight line	8
Other	Straight line	11
Computer software and licences	Straight line	3
Other intangibles	Straight line	5

Carrying amounts are assessed for indicators of impairment at each reporting date. The customer-related assets are attributable to the Opus Energy CGU and the Pinnacle CGU. The brand is attributable to the Opus Energy CGU. Details of the impairment tests relating to these CGUs are included in note 2.4.

5.2 Goodwill and intangible assets continued

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Other intangibles £m	Goodwill £m	Total £m
Cost and carrying amount:							
At 1 January 2021	211.0	11.3	131.5	21.0	–	248.2	623.0
Additions at cost (acquired separately)	8.2	–	–	–	–	–	8.2
Additions at cost (internally generated)	–	–	14.1	–	–	–	14.1
Transfers from/(to) tangible fixed assets	–	–	1.2	(19.3)	–	–	(18.1)
Acquired in business combinations	35.9	–	0.4	–	0.2	165.9	202.4
Effect of changes in foreign exchange rates	0.4	–	–	–	0.1	2.2	2.7
At 1 January 2022	**255.5**	**11.3**	**147.2**	**1.7**	**0.3**	**416.3**	**832.3**
Additions at cost (internally generated)	**–**	**–**	**9.4**	**–**	**–**	**–**	**9.4**
Disposals	**–**	**–**	**(8.2)**	**–**	**–**	**–**	**(8.2)**
Impairment	**–**	**–**	**(19.2)**	**(1.7)**	**–**	**–**	**(20.9)**
Transfers between categories	**–**	**–**	**(0.5)**	**0.5**	**–**	**–**	**–**
Transfers to property, plant and equipment	**–**	**–**	**0.5**	**(0.5)**	**–**	**–**	**–**
Effect of changes in foreign exchange rates	**2.1**	**–**	**0.3**	**–**	**–**	**7.9**	**10.3**
At 31 December 2022	**257.6**	**11.3**	**129.5**	**–**	**0.3**	**424.2**	**822.9**
Accumulated amortisation:							
At 1 January 2021	126.6	4.5	61.9	–	–	–	193.0
Charge for the year	22.8	1.1	10.5	–	–	–	34.4
Acquired in business combinations	0.1	–	–	–	0.1	–	0.2
Effect of changes in foreign exchange rates	(0.1)	–	–	–	(0.1)	–	(0.2)
At 1 January 2022	**149.4**	**5.6**	**72.4**	**–**	**–**	**–**	**227.4**
Charge for the year	**21.2**	**1.2**	**9.0**	**–**	**–**	**–**	**31.4**
Disposals	**–**	**–**	**(8.2)**	**–**	**–**	**–**	**(8.2)**
Impairment	**–**	**–**	**5.7**	**–**	**–**	**–**	**5.7**
Effect of changes in foreign exchange rates	**–**	**–**	**0.1**	**–**	**–**	**–**	**0.1**
At 31 December 2022	**170.6**	**6.8**	**79.0**	**–**	**–**	**–**	**256.4**
Net book value:							
At 31 December 2021	106.1	5.7	74.8	1.7	0.3	416.3	604.9
At 31 December 2022	**87.0**	**4.5**	**50.5**	**–**	**0.3**	**424.2**	**566.5**

The Group has incurred research and development expenditure of £12.5 million (2021: £11.4 million), which is included within Operating and administrative expenses in the Consolidated income statement.

Customer-related assets

Customer-related assets primarily reflects the value of customer contracts acquired on the acquisition of Opus Energy in February 2017 and the acquisition of Pinnacle in April 2021, which provided the Group with access to customer bases with contracted cash flows.

The Opus Energy asset acquisition date fair value of £211.0 million reflected the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using an asset specific discount rate of 10.7%. The asset has an estimated UEL from acquisition of 11 years, calculated based on customer churn-rate analysis which shows how many customers are expected to leave the business in a given year, and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time. At 31 December 2022, the Opus Energy asset had a carrying value of £47.8 million (2021: £64.2 million) and a remaining UEL of approximately five years (2021: six years).

The Pinnacle asset acquisition date fair value of £35.9 million (C$62.1 million) was estimated based on a multi-period excess earnings method. This was based on the present value of the incremental after-tax cash flows attributable to the customer-related intangible asset, after deducting a contributory asset charge that represented the required return for fixed assets, net working capital and the assembled workforce that are required to generate the cash flows. The valuation estimates an appropriate margin to apply to the contracts.

Section 5: Other assets and liabilities continued

5.2 Goodwill and intangible assets continued

No customer retentions were assumed as part of the valuation. The inputs used as part of the valuation are detailed below:

	Pinnacle customer-related asset
Asset specific discount rate	10.0%
Weighted average tax rate	25.2%
Return on net working capital	1.5%
Return on fixed assets	7.0%
Return on the assembled workforce	8.5%
Useful economic life	10 years

The Pinnacle customer-related asset is being amortised on a straight-line basis to reflect the even spread of contract maturities over the UEL. At 31 December 2022, the Pinnacle asset had a carrying value of £31.5 million (2021: £33.8 million) and a remaining UEL of approximately eight years (2021: approximately nine years).

The Other customer-related assets primarily relate to pellet sales contracts acquired from Pacific BioEnergy on 31 December 2021.

Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11.3 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10-year UEL from acquisition.

Computer software and licences

Additions in the period include those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the Customers segment. Software assets are amortised on a straight-line basis over their estimated UEL ranging from three to 10 years.

In March 2021 The IFRIC finalised its agenda decision regarding how to account for cost of configuring or customising a supplier's application software in a SaaS arrangement. The agenda decision concluded that the configuration and customisation costs do not normally result in an intangible asset and should therefore be recognised as an expense. The Group has subsequently applied a new accounting policy for SaaS costs, consistent with the agenda decision, from 1 January 2022.

SaaS costs capitalised by the Group at 1 January 2022, and impacted by this change in accounting policy, had a net book value of £5.7 million. These assets have been impaired during the year, with the charge being recognised against accumulated amortisation in the table above, and recorded as an exceptional cost (see note 2.7). SaaS costs incurred from 1 January 2022 have been recognised in Operating and administrative expenses. See the Change in accounting policy section in the Basis of preparation for further details.

As at 31 December 2022, computer software assets under the course of construction amounted to £18.3 million (2021: £39.3 million). The comparative amount included £19.2 million for a billing system where the Group has stopped development and is engaged in active discussion with the supplier following the supplier's failure to perform under the contract. Proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that future economic benefits will be recovered as an ongoing intangible asset and as a result, the asset has been impaired in the current financial period. The impairment charge has been recognised against the cost the asset in the table above, and recorded as an exceptional cost. See notes 2.7 and 7.6 for further information.

See note 2.4 for a summary of impairment charges recognised on fixed assets during the year.

Goodwill

The table below shows the carrying amount of goodwill by CGU:

	As at 31 December	
	2022 £m	2021 £m
CGU allocation:		
Drax Energy Solutions CGU: Haven Power acquired in 2009	**10.7**	10.7
Opus Energy CGU: Opus Energy acquired in 2017	**159.2**	159.2
Lanark CGU: Drax Generation Enterprise acquired in 2018	**11.3**	11.3
Galloway CGU: Drax Generation Enterprise acquired in 2018	**40.1**	40.1
Cruachan CGU: Drax Generation Enterprise acquired in 2018	**26.9**	26.9
Pellet group of CGUs: Pinnacle acquired in 2021	**176.0**	168.1
Total goodwill	**424.2**	416.3

A full impairment assessment of CGUs with goodwill allocated to them has been performed as detailed in note 2.4.

5.3 Provisions

The Group makes provisions for reinstatement to cover the estimated costs of decommissioning and demolishing or remediating the sites of its generation assets at the end of their useful economic lives (UELs). The Group has recognised a restructuring provision in respect of coal closure. Other provisions primarily relate to dilapidation provisions for leased assets.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount required to settle the obligation.

Specifically, a provision is made for the estimated decommissioning costs at the end of the UEL of the Group's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected future costs. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the UELs of the related assets. The unwinding of the discount is included in interest payable and similar charges.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation that it will carry out the restructuring either by starting to implement the plan or announcing its main features to those affected by it. The restructuring provision includes only the direct expenditures arising from the restructuring programme. These are costs that would have been avoided if the restructuring programme did not go ahead. Any costs to be incurred relating to the ongoing activities of the Group are excluded from the provision.

A provision for termination benefits is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

	Decommissioning provision £m	Restructuring provision £m	Other provisions £m	Total £m
Carrying amount:				
At 1 January 2022	**69.5**	**16.7**	**0.2**	**86.4**
Additions	–	0.4	0.1	0.5
Utilised	(2.7)	(4.4)	–	(7.1)
Reclass between provision categories	(1.5)	–	1.5	–
Unwinding of discount and changes in the discount rate[1]	(21.3)	–	–	(21.3)
Effect of changes in foreign exchange rates	–	–	0.1	0.1
At 31 December 2022	**44.0**	**12.7**	**1.9**	**58.6**

(1) The unwinding of discount and changes in the discount rate is comprised of a £1.1m increase to the provision relating to unwinding of the discount (see note 2.5) and a £22.4m decrease in the provision relating to changes in the discount rate (see note 3.1).

Decommissioning provisions are made in respect of Drax Power Station. The decommissioning provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected UEL of Drax Power Station, currently estimated to be 2039. This has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis as a minimum, but more regularly where deemed appropriate due to changes in plans for decommissioning the site that would impact the expected costs. The most recent update took place in December 2020.

This cost of decommissioning was estimated to be £56.0 million. An inflation curve was then applied to estimate the decommissioning costs in 2039. This value was then discounted to calculate the present value of the provision to be recognised.

The discount rate used is a nominal risk-free rate that reflects the duration of the liability. The discount rate is estimated using forward UK Gilt curves as a proxy for risk-free rates. The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. The discount rate used for the Group's decommissioning provision is 4.05% (2021: 1.16%).

The decommissioning provision is not considered a key source of estimation uncertainty to which there is a significant risk of a material adjustment to the carrying amount within the next financial year. Decommissioning provisions are based on costs sufficiently far in the future that, given the length of time, it is not anticipated that any new, more reliable, or accurate information will be available within the next financial year to update this estimate that would result in a material adjustment. The cost of decommissioning a site the size of Drax Power Station will be impacted by things such as the exact composition and volumes of materials used in the structures to be decommissioned, and the presence of contaminants. Full site surveys and investigations will need to be performed once the site ceases operation to ascertain further information necessary to decommission the site which could impact the potential costs. Notwithstanding this, due to the high degree of estimation and uncertainty regarding the potential costs and timing of decommissioning Drax Power Station, there remains a risk of a material adjustment to the carrying amount in the longer-term.

Section 5: Other assets and liabilities continued

5.3 Provisions continued

The present value recognised for the decommissioning provision is dependent on the inflation rate and discount rate used. Inflation rates are estimated using forward inflation curves. An increase of 10% to the cost estimates would increase the decommissioning provision by £4.7 million (2021: £6.8 million). An increase of 100 basis points in the inflation and discount rates used would result in a £9.5 million (2021: £13.8 million) increase and a £7.0 million (2021: £11.1 million) decrease respectively in the amount recognised.

The relationship between the change in basis points and change in amount recognised is relatively linear therefore the impact of similar sensitivities may be interpolated and extrapolated from these amounts.

The restructuring provision consists of redundancy costs relating to the formal closure of the coal units at Drax Power Station which was initially planned for September 2022. It also includes costs for engineering works required to make the coal units and related assets safe when they cease operating. At the request of the UK Government, the Group has entered into an agreement with National Grid to keep the two coal units available to provide a "winter contingency" service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and will only operate if and when instructed to do so by National Grid. This has delayed the formal closure of the coal units and has resulted in the utilisation of certain amounts of the restructuring provision also being delayed. This has not materially impacted the expected costs.

The amount of the restructuring provision utilised in the year predominantly relates to engineering and redundancy costs. Of the balance remaining at 31 December 2022, £11.6 million relates to engineering works, of which £3.2 million is expected to be utilised in 2023 with the remaining amounts expected to be utilised in the period 2024 to 2026. A further £0.6 million relates to redundancy costs, which are expected to be utilised in 2023, and the remaining £0.5 million relates to other costs, which are expected to be utilised in the period 2024 to 2026. The full provision has been presented within non-current liabilities in the Consolidated balance sheet.

5.4 Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or classified as held for sale and meets one of the following criteria outlined in IFRS 5:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Accounting policy

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria.

When an operation is classified as a discontinued operation its results are presented separately in the Consolidated income statement. The results of the discontinued operation are also re-presented in the Consolidated income statement as discontinued in the comparative period.

Sale of CCGT portfolio

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek (see notes 3.5 and 7.1). The sale price represented a return over the Group's period of ownership significantly ahead of the Group's weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021 which was amended to £186 million in July 2021 following conclusion of the completion accounts process. The Group recognised an overall net gain on disposal of £8.5 million spread across the financial years ending 31 December 2020 and 31 December 2021.

The Group recognised certain transaction-related and mark-to-market costs, as incurred, during the year ended 31 December 2020. As a result, recognition of the net gain on disposal in the Group's Consolidated income statement is spread across 2020 and 2021, as illustrated below. No amounts have been recognised in the current financial year in relation to this disposal.

	Year ended 31 December			
	2022 £m	2021 £m	2020 £m	Total £m
Gross gain on disposal	–	17.1	–	17.1
Transaction costs	–	(0.9)	(3.3)	(4.2)
Mark-to-market costs	–	(1.1)	(3.3)	(4.4)
Net gain/(loss) on disposal	**–**	**15.1**	**(6.6)**	**8.5**

5.4 Discontinued operations continued

Discontinued operations

The income and expenditure of the CCGT generation portfolio were classified as discontinued operations in the comparative period. There are no items of income or expenditure from discontinued operations in the current financial year.

	Year ended 31 December 2021		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	51.8	(2.5)	49.3
Cost of sales	(31.6)	(7.2)	(38.8)
Gross profit/(loss)	20.2	(9.7)	10.5
Operating and administrative expenses	0.1	(1.9)	(1.8)
Adjusted EBITDA	20.3		
Other gains	–	17.1	17.1
Operating profit	20.3	5.5	25.8
Profit before tax on discontinued operations	20.3	5.5	25.8
Total tax (charge)/credit	(3.6)	1.9	(1.7)
Profit after tax from discontinued operations and total profit from discontinued operations	16.7	7.4	24.1

Earnings per share	Pence	Pence
For net profit for the period from discontinued operations attributable to owners of the Parent Company		
– Basic	4.2	6.1
– Diluted	4.1	5.8

Section 6: People costs

The notes in this section relate to the remuneration of the Directors and employees of the Group, including the Group's obligations under retirement benefit schemes.

6.1 Colleagues including directors and employees

This note provides a more detailed breakdown of the cost of employees, including Executive directors of the Group. The average number of employees in Operations (staff based at production and generation sites), Customers (employees in the Group's Customers segment) and Central corporate and commercial functions are also provided.

Further information in relation to pay and remuneration of the Executive directors can be found in the Remuneration Committee report, starting on page 127.

Staff costs (including Executive directors)

	Year ended 31 December	
	2022 £m	2021 £m
Wages and salaries	**201.8**	167.9
Social security costs	**21.6**	20.0
Defined benefit pension service cost (note 6.3)	**4.7**	6.3
Defined contribution pension cost (note 6.3)	**16.7**	15.7
Share-based payments (note 6.2)	**9.6**	7.4
Termination benefits	**1.4**	7.3
Total staff costs	**255.8**	224.6
Staff costs capitalised	**(6.9)**	(7.5)
Staff costs included in discontinued operations	**–**	1.5
Staff costs included in operating and administrative expenses from continuing operations	**248.9**	218.6

Termination benefits of £1.4 million (2021: £7.3 million) includes a defined benefit past service credit of £nil (2021: credit of £2.6 million). See note 6.3.

Average monthly number of people employed (including Executive directors)

	Year ended 31 December	
	2022 (number)	2021 (number)
Operations (Generation)	**685**	754
Operations (Pellet Production)	**696**	520
Customers	**866**	964
Central corporate and commercial functions	**880**	884
Total average monthly number of people employed	**3,127**	3,122

6.2 Share-based payments

The Group operates three share option schemes for employees: the Long Term Incentive Plan (LTIP) for Executive directors and senior employees (which replaced the Performance Share Plan (PSP) from 2020), the Deferred Share Plan (DSP) for Executive directors, and the Sharesave Plan (SAYE) for all UK qualifying employees. Awards are made to certain employees below senior management under the rules of the LTIP – such awards are retention and recognition awards, designated as One Drax Awards, for more junior colleagues. The Group incurs a non-cash charge in respect of these schemes in the Consolidated income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding at the reporting date.

Accounting policy

The LTIP, PSP, DSP, One Drax Awards and SAYE share-based payment schemes are equity-settled. In accordance with IFRS 2, equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant. The corresponding expense is recognised in the Consolidated income statement on a straight-line basis over the relevant vesting period, based on an estimate of the number of shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each reporting date. Market based conditions are factored into the calculation of the fair value of options granted at the date of grant and are not subsequently remeasured.

6.2 Share-based payments continued

Costs recognised in the Consolidated income statement in relation to share-based payments during the year were as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Equity-settled		
LTIP (granted from 2020)	**5.6**	3.6
PSP (granted from 2017 to 2019)	**0.5**	0.9
DSP (granted from 2017)	**0.4**	0.6
One Drax Awards	**1.0**	0.7
SAYE	**2.1**	1.6
Total share-based payment expense included within staff costs (note 6.1)	**9.6**	**7.4**

Movements in the number of share options outstanding at the reporting date for each scheme is shown below. Only the SAYE options have exercise prices listed as all other schemes have no exercise price.

					SAYE			
	LTIP (number)	PSP (number)	DSP (number)	One Drax Awards (number)	Three-year weighted average exercise price (pence)	SAYE three-year (number)	Five-year weighted average exercise price (pence)	SAYE five-year (number)
At 1 January 2021	3,055,168	1,807,607	690,438	–	137	9,523,816	139	3,649,625
Granted	1,990,385	–	99,367	226,852	331	790,701	331	109,566
Forfeited	(445,760)	(325,362)	(40,568)	(10,083)	141	(813,391)	132	(607,663)
Exercised	–	(627,101)	(135,972)	–	174	(828,697)	180	(516,317)
Expired	(29,565)	(138,722)	(45,839)	(703)	170	(295,606)	164	(95,501)
At 1 January 2022	**4,570,228**	**716,422**	**567,426**	**216,066**	**149**	**8,376,823**	**140**	**2,539,710**
Granted	**1,399,952**	**–**	**71,399**	**143,439**	**563**	**700,799**	**563**	**107,122**
Forfeited	**(238,121)**	**(46,716)**	**(5,598)**	**(11,235)**	**176**	**(222,311)**	**154**	**(80,928)**
Exercised	**–**	**(622,989)**	**(265,482)**	**(211,265)**	**206**	**(545,220)**	**188**	**(72,097)**
Expired	**(32,688)**	**(46,717)**	**–**	**(258)**	**304**	**(146,423)**	**254**	**(28,945)**
At 31 December 2022	**5,699,371**	**–**	**367,745**	**136,747**	**178**	**8,163,668**	**155**	**2,464,862**

The fair value of share options is calculated using either a Monte-Carlo model or a Black-Scholes model, depending on which model is deemed most appropriate for the nature of the share options. The Black-Scholes model compares exercise price to share price at the date of grant. The Monte-Carlo model takes into account the estimated probability of different levels of vesting for share options with market based conditions. The key inputs to the valuation models for the options are the share price at the date of grant, expected volatility and risk-free interest rate. Expected volatility was determined by calculating the historical volatility of the Group's share price. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Section 6: People costs continued

6.2 Share-based payments continued

Information about the valuation models used and relevant inputs to the models is set out in the table below, along with key information about each scheme for options granted and exercised in the current and prior year:

	Year ended 31 December 2022					
Scheme	LTIP	PSP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Valuation model used	Monte-Carlo		Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield for Black-Scholes model	N/A		N/A	N/A	2.85%	3.15%
Annual risk-free interest rate	1.20%		1.20%	1.20%	2.46%	2.38%
Expected volatility	40%		40%	40%	41%	38%
Grant date	18 March 2022		18 March 2022	18 March 2022	12 April 2022	12 April 2022
Share price at grant date (pence)	726		726	726	783	783
Weighted average fair value of options granted at measurement date (pence)	697		726	726	293	291
Fair value of options granted (£m)	9.8		0.5	1.0	2.1	0.3
Vesting period of options granted	3 years		3 years	1 year	3 years	5 years
Weighted average share price of options exercised during the period at the date of exercise (pence)	–	711	729	729	729	722
Number of options exercisable at year end	–	–	17,058	–	605	–
Range of exercise price of options outstanding at year end (pence)					Between 127 and 563	Between 127 and 563
Weighted average remaining contractual life (months)	13	–	11	3	8	30

	Year ended 31 December 2021					
Scheme	LTIP	PSP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Valuation model used	Monte-Carlo		Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield for Black-Scholes model	N/A		N/A	N/A	4.3%	4.7%
Annual risk-free interest rate	0.12%		0.12%	0.12%	0.43%	0.68%
Expected volatility	40%		40%	40%	38%	36%
Grant date	1 April 2021		1 April 2021	1 April 2021	13 April 2021	13 April 2021
Share price at grant date (pence)	418		418	418	413	413
Weighted average fair value of options granted at measurement date (pence)	388		418	418	111	105
Fair value of options granted (£m)	7.7		0.4	0.9	0.9	0.1
Vesting period of options granted	3 years		3 years	1 year	3 years	5 years
Weighted average share price of options exercised during the period at the date of exercise (pence)	–	380	380	–	449	420
Number of options exercisable at year end	–	–	–	–	8,551	–
Range of exercise price of options outstanding at year end (pence)					Between 127 and 331	Between 127 and 331
Weighted average remaining contractual life (months)	21	4	11	3	18	41

6.2 Share-based payments continued

LTIP

The LTIP was introduced in 2020 for Executive directors and senior employees. This replaced the PSP, which operated from 2017 to 2019 (see below). Under the LTIP, annual awards of performance and service-related shares are made for no consideration to Executive directors and other senior employees up to a maximum of 200% of their annual base salary. Vesting of a proportion of shares (50%) is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years, and vesting of a proportion of shares (50%) is conditional upon performance of cumulative Adjusted EPS (defined to be derived from Adjusted results) over three years.

Shares are forfeited due to employees failing to meet the continuing service conditions of the grant and as such do not attract a charge.

Shares expire due to employees not meeting market-based conditions, withdrawing (by choice) part way through the vesting period or for any other reason not exercising their options in the exercise period after they vest. Under IFRS 2 such options still attract a charge.

PSP

The PSP was introduced for Executive directors and senior employees to replace the Bonus Matching Plan from 2017. Under the PSP, annual awards of performance and service-related shares were made for no consideration up to a maximum of 175% of their annual base salary. Vesting of a proportion of shares (50%) was conditional upon whether the Group's TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) was conditional upon performance against the Group Scorecard (see page 147).

DSP

The Group operates the DSP, under which Executive directors receive 40% (2021: 40%) of their annual bonus in shares. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions.

One Drax Awards

One Drax Awards are granted under the rules of the LTIP to certain employees below senior management and vest after one year subject to continuous employment. The number of shares awarded to the employee is equivalent to 10% of their base salary based on the Group's share price as at the grant date.

SAYE

In April 2022, participation in the SAYE plan was offered again to all UK qualifying employees. Options were granted for employees to acquire shares at a discount of 20% to the prevailing market price at the grant date, determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on pages 138 and 139.

6.3 Retirement benefit obligations

The Group operates two defined benefit and five defined contribution pension schemes.

Name of scheme	Type of Benefit	Status	Country
Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS)	Defined benefit final salary	Closed to new members in 2002	UK
Drax 2019 Scheme	Defined benefit final salary	Closed to new members on transfer in 2019	UK
Drax Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Energy Solutions Personal Pension Plan	Defined contribution	Open to new members	UK
Opus Energy Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Biomass Inc. 401(K) Plan	Defined contribution	Open to new members	US
Pinnacle Registered Retirement Savings Plan	Defined contribution	Open to new members	Canada

Trustee governance (defined benefit pension schemes)

The UK defined benefit schemes are administered by a board of Trustees, which is legally separate from the Group. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy for the assets and the day-to-day administration of the benefit schemes.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The Consolidated income statement charge for the defined contribution scheme represents the total contributions to be paid by the Group in respect of the current period.

Section 6: People costs continued

6.3 Retirement benefit obligations continued

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the Consolidated balance sheet with a charge or credit to the Consolidated statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements, are recognised in the Consolidated income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense or credit is recognised in interest payable and similar charges or interest receivable.

Significant estimation uncertainty

Measurement of the defined benefit pension obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the schemes are reasonable based on prior experience, market conditions and the advice of pension scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2022 have been prepared in accordance with independent actuarial advice received and are consistent with those applied in the prior period.

Defined contribution schemes

The Group operates five defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Total included in staff costs (note 6.1)	**16.7**	15.7

As at 31 December 2022, contributions of £1.5 million (2021: £1.1 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further outstanding payment obligations in respect of the current reporting period once these contributions have been paid.

Defined benefit schemes

Any pension surplus and obligation are shown gross on the Consolidated balance sheet as there is no legal right of offset between the two defined benefit pension schemes. The net pension surplus for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2022 £m	2021 £m
DPG section of the ESPS (DPG ESPS)	**32.4**	44.0
Drax 2019 Scheme	**6.1**	4.9
Total net surplus recognised in the Consolidated balance sheet	**38.5**	48.9

The DPG ESPS and the Drax 2019 Scheme are collectively referred to as "the Schemes" below. At 31 December 2022, application of the accounting assumptions used in relation to the Schemes, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

Both of the Schemes are defined benefit final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Pension benefits are updated in line with inflationary increases.

The DPG ESPS was closed to new members as of 1 January 2002 unless they had qualified through being existing members of another part of the ESPS. Employed members who joined before this date continue to build up pension benefits as part of the scheme. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times the member's annual pension at retirement.

The Drax 2019 Scheme was set up following a transaction on 31 December 2018, when the Group acquired assets from Scottish Power Limited. Under the terms of the sale and purchase agreement, employees with defined benefit pension rights who moved to the Group as part of the transaction were able to build up a future defined benefit pension and were also able to transfer their defined benefits they had already built up to the Group. The scheme was set up to facilitate this from 1 January 2020. From this date, 96 members joined the Drax 2019 scheme and continued to build up a future defined benefit pension. Of these, 81 members agreed to transfer their past service benefits into the scheme.

Under the Drax 2019 Scheme, employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). No other post-retirement benefits are provided. The scheme is open to future accrual of benefits but closed to new members.

6.3 Retirement benefit obligations continued

The Group and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Schemes by investing in assets that perform in line with the liabilities to protect against interest rates being lower or inflation being higher than expected, for example.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The Schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this creates a deficit. The DPG ESPS holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given this scheme's long-term objectives. The Drax 2019 Scheme's long-term investment strategy and strategic asset allocation is 70% in gilts and cash to support liability hedging and equity derivative overlay strategies, 15% allocated to synthetic credit and 15% to credit opportunities. The scheme has moved towards a fully hedged position but continues to maintain return-generating assets such as equity options and credit strategies.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the Schemes' liabilities, although this will be partially offset by an increase in the value of the Schemes' bond holdings.
Longevity risk	The majority of the Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the Schemes.
Inflation risk	The majority of the Schemes' obligations to pay benefits are linked to inflation and, as such, higher inflation leads to higher liabilities. In most cases, caps on inflationary increases are in place to protect against extreme inflation. The Schemes have a significant holding in liability-driven investments and around 85% of inflation risk in the Schemes is hedged on a low-risk measure (2021: around 85%).
Credit risk	Around 85% of the Schemes' overall funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. The Schemes hedge interest rate risks on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the discount rate and so there is a degree of mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Schemes' holding in corporate bonds mitigates this risk to some extent.

During the year, particularly around September and October 2022, there was significant yield volatility. However, with the exception of one week over which hedge ratios reduced for the DPG ESPS, the Schemes were able to maintain their target hedge levels throughout this period.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new regulation) and other demographic risks (such as making a higher proportion of members with dependents eligible to receive pensions from the Group). The Trustees ensure certain benefits are payable on death before retirement.

A qualified independent actuary, Aon, carried out the most recent funding valuation of the DPG ESPS as at 31 March 2019, and the most recent funding valuation of the Drax 2019 Scheme as at 31 March 2021. The actuarial review at 31 December 2022 is based on the same membership and other data as these funding valuations. The Schemes' Boards accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the Schemes' costs.

The results of the latest funding valuations have been adjusted to 31 December 2022, taking into account experience over the period since that date, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation and the related current service costs were measured using the projected unit credit method.

The principal assumptions for the Schemes are set out below. Where absolute assumptions differ between the two schemes, reflecting differences in the expected duration of the Schemes' liabilities, a weighted average is shown.

	As at 31 December	
	2022 % p.a.	2021 % p.a.
Discount rate	**4.8**	1.9
Inflation (RPI)	**3.0**	3.0
Rate of increase in pensions in payment and deferred pensions	**2.8**	2.9
Rate of increase in pensionable salaries	**3.6**	3.6

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Whilst actual inflation has been high over 2022, long-term expectations as at 31 December 2022 are in line with long-term expectations as at 31 December 2021. The defined benefit obligation for the Schemes allows for expected benefit increases that will be awarded in 2023, based on known 2022 indices.

Mortality assumptions are based on recent actual mortality experience of the Schemes' members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2022 will live, on average, for a further 26 years if they are male (2021: 26 years) and for a further 28 years if they are female (2021: 28 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 29 years respectively (2021: 27 and 29 years respectively).

The weighted average duration of the DPG ESPS at 31 December 2022 based on the IAS 19 position was 18 years (2021: 20 years). The weighted average duration of the Drax 2019 Scheme at 31 December 2022 based on the IAS 19 position was 21 years (2021: 24 years).

The DPG ESPS defined benefit obligation includes benefits for current employees of the Group (45%), former employees of the Group who are yet to retire (5%) and retired pensioners (50%). The Drax 2019 Scheme defined benefit obligation includes benefits for current employees of the Group (55%), former employees of the Group who are yet to retire (43%) and retired pensioners (2%).

The net surplus recognised in the Consolidated balance sheet in respect of the Schemes is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2022 £m	2021 £m
Fair value of plan assets	**219.6**	369.8
Defined benefit obligation	**(181.1)**	(320.9)
Net surplus recognised in the Consolidated balance sheet	**38.5**	48.9

The total charges and credits recognised in the Consolidated income statement, within other operating and administrative expenses and interest receivable, are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Included in staff costs (note 6.1):		
Current service cost	**4.7**	6.3
Past service credit	**–**	(2.6)
Included in interest receivable (note 2.5):		
Interest income on net defined benefit surplus	**(1.0)**	(0.3)
Total amount recognised in the Consolidated income statement	**3.7**	3.4

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited. The past service credit in 2021 relates to this sale, which led to 42 members, of a pre-transaction total of 96, ceasing to accrue benefits in the Drax 2019 Scheme and becoming deferred members.

The past service credit calculation was performed by a qualified independent actuary using the same assumptions as those applied to the rest of the Schemes. The past service credit represents the difference between the liability relating to the standard Drax 2019 Scheme benefits as an active member as per the reserve in the calculation of the Group's IAS 19 position at that time, and the corresponding liability in respect of the equivalent benefits as deferred members (including allowance for two members who were offered enhanced past service benefits).

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Defined benefit obligation at 1 January	**320.9**	378.1
Current service cost	**4.7**	6.3
Past service credit	**–**	(2.6)
Interest cost	**5.7**	5.3
Actuarial gains	**(123.6)**	(15.4)
Benefits paid	**(26.6)**	(50.8)
Defined benefit obligation at 31 December	**181.1**	320.9

The actuarial gains of £123.6 million (2021: £15.4 million) reflect gains of £133.3 million (2021: £10.3 million) arising from changes in financial assumptions, losses arising from scheme experience of £9.9 million (2021: gains of £4.3 million) and gains of £0.2 million (2021: £0.8 million) arising from changes in demographic assumptions.

The gains due to changes in financial assumptions principally reflect the decrease in the present value of the Schemes' liabilities arising as a result of the movement in discount rate assumption to 4.8% p.a. (2021: 1.9% p.a.) following an increase in corporate bond yields, coupled with a slight decrease in overall long-term inflationary assumptions reflecting market pricing.

Changes in the fair value of plan assets are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Fair value of plan assets at 1 January	**369.8**	386.3
Interest on plan assets	**6.7**	5.7
Remeasurement (losses)/gains on fair value of plan assets	**(148.0)**	15.3
Employer contributions	**17.7**	13.3
Benefits paid	**(26.6)**	(50.8)
Fair value of plan assets at 31 December	**219.6**	369.8

Employer contributions included payments totalling £7.6 million (2021: £7.2 million) to reduce the actuarial deficit in the DPG ESPS. There were contributions of £3.2 million outstanding at the end of the year (2021: £1.0 million).

The actual return on plan assets in the period was a £141.3 million loss (2021: £21.0 million gain).

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Remeasurement losses on the defined benefit pension scheme of £24.4 million (2021: gains of £30.7 million) were recognised in the Consolidated statement of comprehensive income. These are made up as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Actuarial gains on defined benefit obligation	**123.6**	15.4
Remeasurement (losses)/gains on fair value of plan assets	**(148.0)**	15.3
Total remeasurement (losses)/gains recognised in other comprehensive income	**(24.4)**	30.7

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2022 £m	2021 £m
Gilts	**117.2**	150.0
Equities[1]	**6.5**	26.5
Fixed interest bonds[2]	**4.8**	30.3
Property	**28.6**	32.1
Investment funds	**4.3**	25.0
Cash and other assets[3]	**58.2**	105.9
Fair value of total plan assets	**219.6**	369.8

(1) At 31 December 2022 DPG ESPS's long-term asset strategy was: diversified growth funds (37%), direct lending (10%), absolute return bonds (3%), liability driven investing (40%) and long-lease property (10%). The Drax 2019 Scheme's long-term investment strategy and strategic asset allocation is 70% in gilts and cash to support liability hedging and equity derivative overlay strategies, 15% allocated to synthetic credit and 15% to credit opportunities.
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.
(3) Other assets include £29.9 million (2021: £27.1 million) of investments in direct lending, a type of private equity vehicle which is not quoted in an active market. The fair value of these investments is derived in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. All other assets are quoted in an active market.

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The valuation of the pension liabilities has been disclosed as a key source of estimation uncertainty due to the assumptions used in the valuation. The assumptions for discount rate, inflation rate (and related inflation linked benefits) and life expectancy have a potentially significant effect on the measurement of the Schemes' surpluses. The following table provides an indication of the sensitivity of the net pension surplus at 31 December 2022 to changes in these assumptions, considering the impact on the defined benefit obligation only. If a combination of the below reasonably possible changes to key assumptions were used in the valuation of the pension liabilities, this could result in a material change to the amount recognised.

			Increase/(decrease) in net surplus	
As at 31 December			**2022 £m**	2021 £m
Discount rate	– Increase	0.25%	**8.0**	17.3
	– Decrease	0.25%	**(8.5)**	(19.5)
Inflation rate[1]	– Increase	0.25%	**(7.0)**	(15.1)
	– Decrease	0.25%	**6.6**	13.8
Life expectancy	– Increase	1 year	**(6.2)**	(13.2)
	– Decrease	1 year	**6.4**	12.7

(1) The sensitivity of the Schemes' liabilities to salary and pension increases is closely correlated with inflation, therefore separate sensitivities have not been performed on salary and pension increases and the inflationary sensitivity incorporates these.

6.3 Retirement benefit obligations continued

The Group is exposed to investment and other risks. However, this risk is mitigated by the Schemes being around 85% hedged against movements in government bonds and inflation of appropriate duration. This means from a discount rate perspective that the Schemes are broadly only exposed to changes in credit spreads plus around 15% of changes in underlying gilt yields and, for inflation, the Schemes' exposure is around 15% of any actual changes.

Future contributions

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). This funding is carried out with reference to actuarial valuations which are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Group must agree the contributions required (if any) such that the Schemes are fully funded over time on the basis of suitably prudent assumptions.

The Group expects to make total contributions of £12.8 million to the Schemes during the 12 months ending 31 December 2023.

The latest actuarial valuation of the Drax 2019 Scheme which was carried out as at 31 March 2020 resulted in a funding surplus of £1.3 million and so no deficit recovery plan was required. The last actuarial valuation of the DPG ESPS was carried out as at 31 March 2019. Following this actuarial valuation, the Group agreed to repair the funding deficit of £35.9 million as at 31 March 2019 over the period to 30 June 2024, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2019 being borne out in practice. The agreement includes payments of £7.2 million per annum (indexed with RPI) to be paid until 30 June 2024.

The Group has also agreed to make additional contributions to the DPG ESPS over the period to 31 December 2025 to eliminate the self-sufficiency deficit. At this point, the DPG ESPS is expected to be self-sufficient and fully funded, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is satisfied that the additional contributions are manageable within the Group's business plan.

The Trust Deeds of the DPG ESPS and the Drax 2019 Scheme provide the sponsors of the Schemes with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Furthermore, in the ordinary course of business, the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the DPG ESPS. Based on these rights, any net surplus in the plan is recognised in full in the Consolidated balance sheet.

Post balance sheet event

On 31 January 2023 the DPG ESPS's assets and liabilities were transferred to the Drax 2019 Scheme, and it is expected that the DPG ESPS will be wound-up in due course. The Drax 2019 Scheme will continue to provide the same level of pension benefits to current and former employees as they were previously entitled to, with the combination allowing the resulting scheme to operate in a more efficient and focused manner, with a reduced administrative burden and associated cost.

Section 7: Risk management

This section provides disclosures around financial risk management, including the financial instruments the Group uses to mitigate such risks.

7.1 Financial instruments and their fair values

The Group holds a variety of derivative and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Accounting classifications and fair values

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy as defined by IFRS 13. It does not include fair value information for leases or for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Cash and cash equivalents (note 4.1), trade and other receivables (note 3.5) and trade and other payables (note 3.7) generally have a short time to maturity. For this reason, their carrying values, on the historical cost basis, are approximate to their fair values. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans (note 4.2). These financial liabilities are measured at amortised cost.

	Carrying amount						Fair value			
As at 31 December 2022 £m	Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	549.9	84.2	–	–	–	634.1	–	634.1	–	634.1
Financial contracts	–	232.8	–	–	–	232.8	–	232.8	–	232.8
Foreign currency exchange contracts	166.5	130.6	–	–	–	297.1	–	297.1	–	297.1
Interest rate and cross-currency contracts	54.0	–	–	–	–	54.0	–	54.0	–	54.0
Contingent consideration	–	27.4	–	–	–	27.4	–	–	27.4	27.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	1,071.9	–	1,071.9				
Cash and cash equivalents	–	–	–	238.0	–	238.0				
Financial liabilities measured at fair value										
Commodity contracts	(804.3)	(62.5)	–	–	–	(866.8)	–	(866.8)	–	(866.8)
Financial contracts	–	(467.0)	–	–	–	(467.0)	–	(467.0)	–	(467.0)
Foreign currency exchange contracts	(0.4)	(69.0)	–	–	–	(69.4)	–	(69.4)	–	(69.4)
Interest rate and cross-currency contracts	(14.3)	–	–	–	–	(14.3)	–	(14.3)	–	(14.3)
Inflation rate contracts	(307.3)	–	–	–	–	(307.3)	–	(307.3)[1]	–	(307.3)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(764.0)	(764.0)	–	(759.9)	–	(759.9)
Unsecured bank loans	–	–	–	–	(44.3)	(44.3)	–	(44.3)	–	(44.3)
Secured loan notes	–	–	–	–	(632.6)	(632.6)	(593.9)	–	–	(593.9)
Lease liabilities	–	–	–	–	(153.1)	(153.1)				
Trade and other payables	–	–	–	–	(1,065.9)	(1,065.9)				

Note:

(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13. Inflation rate contracts contain £23.8 million of derivative liabilities relating to the UK CPI inflation rate contracts.

7.1 Financial instruments and their fair values continued

As at 31 December 2021 £m	Carrying amount						Fair value			
	Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	877.5	121.3	–	–	–	998.8	–	998.8	–	998.8
Financial contracts	–	143.9	–	–	–	143.9	–	143.9	–	143.9
Foreign currency exchange contracts	56.9	40.6	–	–	–	97.5	–	97.5	–	97.5
Interest rate and cross-currency contracts	4.6	–	–	–	–	4.6	–	4.6	–	4.6
Inflation rate contracts	1.3	–	–	–	–	1.3	–	1.3(1)	–	1.3
Contingent consideration	–	27.7	–	–	–	27.7	–	–	27.7	27.7
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	516.8	–	516.8				
Cash and cash equivalents	–	–	–	317.4	–	317.4				
Financial liabilities measured at fair value										
Commodity contracts	(1,054.8)	(33.1)	–	–	–	(1,087.9)	–	(1,087.9)	–	(1,087.9)
Financial contracts	–	(90.2)	–	–	–	(90.2)	–	(90.2)	–	(90.2)
Foreign currency exchange contracts	(29.3)	(108.4)	–	–	–	(137.7)	–	(137.7)	–	(137.7)
Interest rate and cross-currency contracts	(48.4)	–	–	–	–	(48.4)	–	(48.4)	–	(48.4)
Inflation rate contracts	(93.7)	(46.6)	–	–	–	(140.3)	–	(140.3)(1)	–	(140.3)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(786.8)	(786.8)	–	(805.9)	–	(805.9)
Secured bond issues	–	–	–	–	(574.2)	(574.2)	(598.3)	–	–	(598.3)
Lease liabilities	–	–	–	–	(125.9)	(125.9)				
Trade and other payables	–	–	–	–	(869.5)	(869.5)				

Note:

(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13. Inflation rate contracts contain £1.3 million of derivative assets and £11.5 million of derivative liabilities relating to the UK CPI inflation rate contracts.

The derivative financial instruments used by the Group and not subject to the own-use exemption have been categorised as follows:

- Commodity contracts – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through delivery of the commodity.
- Financial contracts – weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- Foreign currency exchange contracts – currency related contracts including forwards, vanilla options and structured option products.
- Interest rate and cross-currency contracts – contracts which swap one interest rate for another in a single currency, including floating-to-fixed interest rate swaps, and contracts which swap interest and principal cash flows in one currency for another currency, including fixed-to-fixed and floating-to- fixed cross-currency interest rate swaps.
- Inflation rate contracts – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI, and inflation swaptions.

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

Fair value measurement

- Commodity contracts – The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the reporting date.
- Financial contracts – The fair value of financial contracts is calculated by reference to forward market prices at the reporting date.
- Foreign currency exchange contracts – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the reporting date.
- Interest rate contracts – The fair value of interest rate swaps is calculated by reference to forward market curves at the reporting date for the relevant interest index.
- Cross-currency interest rate swap contracts – The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest index for floating-to-fixed swaps.
- Inflation rate contracts – The fair value of inflation rate swaps is calculated by reference to forward market curves at the reporting date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect both the time value of money and credit risk inherent within the instrument.

Derivative financial instruments have been considered to be a key source of estimation uncertainty in 2022. The increased volatility and higher prices in markets during the year has resulted in the fair value of derivative contracts fluctuating significantly.
The assessment of fair value is derived in part by reference to a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and published prices from third-party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Due to the increased volatility in the valuations of derivative financial instruments, minor differences in the inputs, assumptions or methodologies used can result in appropriate, but materially different, estimates of fair values to those recognised by the Group. There may be choices to be made of which methodology or data source to use in the calculation of fair value. Assumptions may also need to be made where forward curves are not an exact match for the Group's derivative contracts (e.g. due to quoted product types, maturity dates or time periods not exactly matching the terms of the Group's derivative contracts). Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases. Sensitivities are provided in note 7.2 for the impact of changes in inputs on the fair value.

The Group has reviewed all significant contracts for the presence of embedded derivatives. The 2025 USD loan notes, the 2025 EUR loan notes, and the 2020 Infrastructure private placement facilities all contain early repayment options that meet the definition of embedded derivatives. However, in all cases, these do not require separate valuation as they are deemed to be closely related to the host contract.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate, cross-currency contracts and inflation swaps are largely determined by comparison between forward market prices and the swap price; therefore, these contracts are categorised as Level 2.

There have been no transfers during the current or prior year between Level 1, 2 or 3 category inputs.

The Group is responsible for determining the policies and approach to valuations required for financial reporting purposes, including Level 3 fair values. Internal or external specialists are utilised where necessary. Valuation policies, approaches and the results are discussed with and approved by the CFO and the Audit Committee as required, based on the size, complexity and judgement required with each valuation.

Level 3 fair values

The fair value of the UK CPI inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, CPI is based on unobservable rates and therefore deemed to be Level 3 in the fair value hierarchy. However, this component is not material to the overall valuation and therefore the instruments as a whole have been classified as Level 2.

The valuation technique used for non-listed equity investments comprises unobservable inputs and these are therefore classified as Level 3. However, given the valuation as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures in these Consolidated financial statements.

The consideration receivable by the Group for the sale of the CCGT generation portfolio in 2021 includes £29.0 million that is contingent on certain triggers in respect of the option to develop the Damhead Creek 2 land disposed of as part of the sale of these assets. The fair value measurement for the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

7.1 Financial instruments and their fair values continued

	Valuation approach	Significant unobservable inputs and range of inputs (probability weighted)	Relationship between significant unobservable input and fair value measurement
Contingent consideration	The fair value of the contingent consideration is determined using a discounted cash flow model. The valuation approach is based on a calculation of the probability of the option to develop the Damhead Creek land being exercised. This probability is calculated using a range of forecasts for future Capacity Market auctions and the assumption that the option to develop the land would be exercised if the Capacity Market price were to clear above a certain level, providing sufficient certainty on the economics of the development.	Forecasted future Capacity Market clearing prices: **£7.00/kW – £64.64/kW (£35.91/kW)** (2021: £4.81/kW – £64.13/kW) (2021: (£18.70/kW)) Estimated bid price at which Damhead Creek 2 is to be entered into the Capacity Market auction: **£40.00/kW** (2021: £20.00/kW)	The fair value measurement would increase/(decrease) with: – higher/(lower) forecasted Capacity Market clearing prices causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised. – higher/(lower) estimated bid price required for the Damhead Creek 2 development to proceed causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised.

A reconciliation of the contingent consideration is detailed below:

	Year ended 31 December	
	2022 £m	2021 £m
Balance at 1 January	**27.7**	–
Contingent consideration receivable recognised on the sale of the CCGT generation portfolio	–	27.7
Net change in fair value (unrealised)	**(0.3)**	–
Balance at 31 December	**27.4**	27.7

Sensitivities are disclosed below for reasonably possible changes to the unobservable inputs that would have a significant impact on the fair value measurement:

	Impact on profit before tax	
	Decrease £m	**Increase £m**
As at 31 December 2022		
Forecasted future Capacity Market clearing prices (25%)	**(3.7)**	**0.7**
Estimated bid price (25%)	**1.0**	**(3.2)**

	Impact on profit before tax	
	Decrease £m	Increase £m
As at 31 December 2021		
Forecasted future Capacity Market clearing prices (25%)	(2.9)	1.1
Estimated bid price (25%)	1.1	(2.2)

Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which represents the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at the reporting date.

Changes in fair value are recognised either within the Consolidated income statement or the hedge reserve and cost of hedging reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS 9 (see note 7.2).

Where applicable the Group applies the own-use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements.

Contracts for non-financial assets which do not qualify for the own-use exemption (principally power, gas, financial oil and carbon emissions allowances) are accounted for as derivatives in accordance with IFRS 9 and are recorded in the Consolidated balance sheet at fair value. Changes in fair value are reflected through the hedge reserve (note 7.3) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the Consolidated income statement where the hedge accounting requirements are not met, or the hedges are ineffective. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from the Adjusted results in the Consolidated income statement until the contract matures (see note 2.7 for further details).

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

The Group's biomass risk management policy permits some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such, the own-use exemption would likely not apply to these biomass contracts. However, the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9 and are excluded from fair value mark-to-market accounting.

The derivative financial instruments recognised in the Consolidated balance sheet at the reporting date are:

	As at 31 December	
	2022 £m	2021 £m
Non-current derivative financial instrument assets	**421.7**	357.5
Current derivative financial instrument assets	**796.3**	888.6
Total derivative financial instrument assets	**1,218.0**	1,246.1
Non-current derivative financial instrument liabilities	**(735.4)**	(541.8)
Current derivative financial instrument liabilities	**(989.4)**	(962.7)
Total derivative financial instrument liabilities	**(1,724.8)**	(1,504.5)
Total net derivative financial instruments	**(506.8)**	(258.4)

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at FVTPL are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at FVTPL. In addition to the amounts disclosed below, gains and losses relating to derivatives qualifying for hedge accounting are disclosed in notes 7.2 to 7.4.

	Gains or losses recognised	
	2022 £m	2021 £m
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	**(441.4)**	(77.0)
Gains on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	**32.6**	36.6
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in interest payable and similar charges	**(0.4)**	(0.3)
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange gains/(losses)	**(3.8)**	(5.1)
Total losses on derivative financial instruments not qualifying for hedge accounting	**(413.0)**	(45.8)

Rebasing is explained in the glossary. When the Group rebases derivative contracts, the Group retains the contractual rights to the cash flows, the risks and rewards, and control of the derivative asset. The Group does not assume any obligation to pay the cash flows to another recipient. Accordingly, the derivative asset is not derecognised.

The cash flows received at the point of rebasing reduce the cash flows to be received on maturity of the trade, and as such the cash flows over the life of the instrument are the same whether a trade is rebased or not, minus fees.

At the point of rebasing, the Group recognises a reduction in the fair value of the derivative asset, equivalent to the fair value difference between the original rate per the contract and the rebased rate. The Group also recognises the cash received, or due, as a result of the rebasing. Any difference between the reduction in the fair value of the derivative asset, and the cash received, is recognised as a fee charged for rebasing and is recognised within operating and administrative expenses.

The total gain or loss recognised in the period on the derivative contract, including rebased amounts, is included within Total results. No amounts are recognised in Adjusted results at the point of rebasing. The total gain or loss on the derivative contract, including the amount rebased, is recognised in Adjusted results on the contractual maturity date of the contract. If a rebased trade is hedge accounted, the rebased amount is deferred or released from the hedge reserve in line with the hedge accounting requirements of IFRS 9.

7.2 Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by the Risk management committees as explained in the Principal Risks and uncertainties section (page 77) which identify, evaluate and hedge financial risks in close co-ordination with the Group's trading and treasury functions under policies approved by the Board of directors.

7.2.1 Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of power, gas, biomass pellets and fibre, other fuels and the price of carbon emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases or decreases in commodity prices. The analysis assumes all other variables were held constant.

Financial and commodity markets have become increasingly volatile in 2022, in part due to the conflict in Ukraine. This volatility has impacted economies and markets around the world, including the UK energy market, which has in part contributed to rising inflation. The geopolitical environment and concerns over the macro-economic outlook have also contributed to a weakening in sterling during 2022. See the Principal risks and uncertainties section on page 77 for further details on both the conflict in Ukraine and energy market conditions. As a result of these factors, the valuation of the Group's derivative financial instruments, in particular power, gas, foreign currency contracts, inflation and oil, were subject to significant fluctuations during 2022.

Sensitivities for a 10% change in prices have been included in the current year. The impact of smaller and larger price changes can be interpolated and extrapolated from the below table as changes in prices have a relatively linear relationship with the impact on profit after tax and on the hedge reserve.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
As at 31 December 2022				
Power	–	–	33.8	(33.8)
Carbon	2.5	(2.5)	(0.8)	0.8
Gas	0.8	(0.8)	–	–
Oil	(10.6)	10.6	–	–

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
As at 31 December 2021				
Power	–	–	27.8	(27.8)
Carbon	–	–	(0.2)	0.2
Gas	(7.4)	7.4	–	–
Oil	(9.8)	9.8	–	–

Profit after tax is sensitive to increases or decreases in commodity prices as a result of the impact on the fair value of derivative financial instruments not designated as hedging instruments under cash flow hedge accounting. The Group designates certain derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to increases or decreases in commodity price risk and the impact on the hedge reserve resulting from these movements.

Commodity risk management

The Group has a policy of securing forward power sales and purchases of fuel when it is profitable to do so and is in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years ahead.
All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power.

The Group purchases biomass pellets and other fuels under either a fixed or variable priced contract with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. If these contracts are within the scope of IFRS 9, the Group, where possible, either applies the own-use exemption or hedge accounting in accordance with IFRS 9. If the own-use exemption or hedge accounting are not applicable then the contracts are recognised at FVTPL.

Section 7: Risk management continued

7.2 Financial risk management continued

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of the Customers business and for its Daldowie fuel plant. To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Group, within the Customers business.

The Group purchases carbon emissions allowances under fixed price contracts to cover the Group's purchase requirements under the UK Emissions Trading Scheme (UK ETS) in relation to the Group's carbon emissions. These are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. Carbon emissions allowances are also purchased as part of proxy power hedges in the same way as financial gas described above. These proxy hedges are not designated as cash flow hedges.

Hedge accounting

The Group has cash flow hedges relating to commodity contracts, principally commitments to sell power and purchase carbon. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each reporting date for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released to the Consolidated income statement as the related contract matures. For power sales contracts, this is at the point that the underlying power is delivered.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the Consolidated income statement in the period the hedged transaction has occurred. No ineffectiveness was recognised in the Consolidated income statement on continuing commodity or financial hedges in the year (2021: £nil). Due to the use of 'all-in-one' hedges, this results in the movement in fair value for the hedged items and hedging instruments being identical.

The only source of ineffectiveness regarding the 'all-in-one' hedges would be if delivery of the commodities was no longer expected to occur, which would result in hedge accounting being discontinued. The main sources of ineffectiveness regarding financial contracts would be as a result of timing differences and credit risk.

The Group had a number of forward sale contracts for power relating to forecast generation from the CCGT assets that were designated as cash flow hedges. All subsequent fair value movements on hedges that had been discontinued were recognised in the Consolidated income statement. By January 2021 the Group had closed out all derivative positions in relation to the CCGT assets. As such, from this point, no further gains or losses occurred in relation to these trades. The remaining CCGT trades matured in the first half of 2022. Prior year amounts relating to these trades are included within discontinued operations, and no further gains or losses were recognised in the current period.

The reconciliation of the reserves and time period when the hedge will affect the Consolidated income statement are disclosed in note 7.3.

7.2 Financial risk management continued

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's commodity and financial contracts that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of commodity and financial contracts that are used to protect the value of future cash flows.

	31 December 2022						
Exposure	Notional value of contracts (MWh, allowances)	Average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Commodity contracts							
Sale of power	2,135,909	218.00	(534.4)	549.9	(803.3)	(190.1)	–
Purchase of carbon emissions allowances	148,000	77.5	(4.2)	–	(1.0)	(0.8)	(1.9)

	31 December 2022							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging losses recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Commodity contracts								
Sale of power	534.4	(534.4)	–	Revenue	–	459.8	–	Revenue
Purchase of carbon emissions allowances	4.2	(4.2)	–	Cost of sales	–	0.1	–	Cost of sales

	31 December 2021						
Exposure	Notional value of contracts (MWh, allowances)	Average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Commodity contracts							
Sale of power	2,585,113	72.83	(181.0)	874.1	(1,052.0)	(138.6)	–
Purchase of carbon emissions allowances	161,000	57.79	17.7	3.4	(2.8)	0.4	–

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging (losses)/gains recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the reclassification/ transfer
Commodity contracts								
Sale of power	181.0	(181.0)	–	Revenue	–	6.3	–	Revenue
Purchase of carbon emissions allowances	(17.7)	17.7	–	Cost of sales	–	(17.2)	–	Cost of sales

Section 7: Risk management continued

7.2 Financial risk management continued

7.2.2 Foreign currency risk

The Group is exposed to fluctuations in foreign currency rates as a result of committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business and principal and interest payments relating to foreign currency denominated debt. These fuel purchases are typically denominated in US dollars (USD), Canadian dollars (CAD) or euros (EUR), and the foreign currency debt is denominated in USD, CAD and EUR (see note 4.2 for further details on the Group's borrowings).

The Group also has an exposure to translation risk in relation to its net investment in its US and Canadian subsidiaries within the Pellet Production business.

Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening or weakening of currencies against GBP. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
As at 31 December 2022				
USD	**41.7**	**(59.0)**	**137.1**	**(112.2)**
EUR	**12.2**	**(20.5)**	**23.6**	**(14.6)**
CAD	**24.4**	**(15.1)**	**7.8**	**(13.0)**

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
As at 31 December 2021				
USD	104.2	(140.8)	173.4	(141.9)
EUR	19.24	(47.7)	26.9	(1.5)
CAD	63.7	(11.3)	22.9	(24.7)

Profit after tax is sensitive to the strengthening or weakening of other currencies as a result of the impact on the fair value of foreign currency derivatives not designated as hedging instruments under cash flow hedge accounting. The Group designates certain foreign currency derivatives as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to the strengthening or weakening of other currencies in relation to the impact on the hedge reserve of these movements. Prior year foreign currency sensitivities have been restated to fully reflect the impact of option contracts and relevant strike prices, which limit the impact of fluctuations in underlying exchange rates.

Foreign currency risk management

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to protect the sterling values of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts in line with the currency risk management policy, including forwards and options, to manage the risks associated with its anticipated foreign currency requirements over a rolling five-year period, covering contracted exposures and a proportion of highly probable forecast transactions.

In addition, in order to optimise the cost of funding, the Group has issued foreign currency denominated debt in USD, CAD and EUR (see note 4.2). The Group utilises derivative contracts, including cross-currency interest rate swaps, to manage exchange risk on foreign currency debt with the exception of CAD denominated debt.

7.2 Financial risk management continued

Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments, predominantly forwards and swaps. Foreign currency exchange contracts that are designated as hedges are transferred from equity to inventories for hedges of fuel purchases when the Group takes ownership of the fuel.

Cross-currency interest rate swap gains and losses that are effective at hedging the foreign exchange risk on the interest payments are released to interest payable and similar charges. Gains and losses that are effective at hedging the foreign exchange risk on the USD or EUR principal are released to foreign exchange gains/(losses) to offset gains and losses on retranslating the USD and EUR denominated hedged borrowings.

The Group has taken out fixed-to-fixed cross-currency interest rate swaps to hedge the future cash flows associated with the $500 million and €250 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has taken out a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps in order to fix the sterling cash flows payable on the €126.5 million facilities agreed as part of the 2020 Infrastructure private placement facilities (see note 4.2 for further details on borrowings).

The main sources of ineffectiveness relating to foreign currency exchange contracts are timing differences and credit risk. The main sources of ineffectiveness relating to cross-currency interest rate swaps are differences in the critical terms, differences in repricing dates and credit risk.

A reconciliation of reserves and the time period when the hedge will affect the Consolidated income statement or will be removed from equity and included in the initial cost of the non-financial item, are disclosed in notes 7.3 and 7.4.

A summary of amounts relating to the hedging instruments, and any related ineffectiveness in the period, is presented in the table below. Ineffectiveness on foreign currency exchange contracts is recognised in cost of sales if it relates to hedges of fuel purchases. Ineffectiveness on cross-currency interest rate swaps that are hedging principal and interest payments is recognised in foreign exchange gains/(losses) if it relates to the principal repayment, and interest payable and similar charges if the ineffectiveness relates to interest payments.

There are €95 million of floating-to-fixed cross-currency interest rate swaps that are hedging both foreign currency risk and interest rate risk. These swaps have been separated into synthetic floating-to-floating cross-currency interest rate swaps, that are hedging foreign currency risk, and synthetic floating-to-fixed GBP interest rate swaps, that are hedging interest rate risk. The synthetic floating-to floating cross-currency interest rate swaps are disclosed in this section, and the synthetic floating-to-fixed GBP interest rate swaps are disclosed in note 7.2.3 relating to interest rate risk.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's foreign currency hedging instruments that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of derivatives that are used to protect the sterling value of future cash flows.

Section 7: Risk management continued

7.2 Financial risk management continued

Exposure	Notional value of contracts ($m €m, C$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
	31 December 2022						
Foreign currency purchase contracts							
Purchases in foreign currency – USD	1,586.4	$1.38	187.2	149.3	–	75.6	–
Purchases in foreign currency – EUR	135.0	€1.16	17.9	3.3	(0.3)	3.3	–
Purchases in foreign currency – CAD	406.1	C$1.73	0.4	13.9	(0.1)	5.6	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	47.5	12.3	(6.2)	0.8	–
Interest and principal repayments – EUR	376.5	4.55%/ 3M SONIA + 137.2bps	(3.1)	4.2	(8.1)	(1.6)	–

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
	31 December 2022							
Foreign currency purchase contracts								
Purchases in foreign currency – USD	(187.2)	187.2	–	Cost of sales	(34.2)	–	–	Inventories
Purchases in foreign currency – EUR	(17.9)	17.9	–	Cost of sales	5.9	–	–	Inventories
Purchases in foreign currency – CAD	(0.4)	0.4	–	Cost of sales	9.2	–	–	Inventories
Foreign currency denominated debt								
Interest and principal repayments – USD	(47.5)	47.5	–	Interest payable and similar charges	–	(9.2)	–	Interest payable and similar charges
			–	Foreign exchange gains/ (losses)	–	(44.7)	–	Foreign exchange gains/ (losses)
Interest and principal repayments – EUR	3.1	(3.1)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
			–	Foreign exchange gains/ (losses)	–	(17.3)	–	Foreign exchange gains/ (losses)

7.2 Financial risk management continued

Exposure	Notional value of contracts ($m, €m, C$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
	31 December 2021						
Foreign currency purchase contracts							
Purchases in foreign currency – USD	2,231.4	$1.38	16.3	50.9	(11.7)	(40.5)	–
Purchases in foreign currency – EUR	320.0	€1.11	(19.4)	–	(17.0)	(15.0)	–
Purchases in foreign currency – CAD	447.6	C$1.76	4.2	6.0	(0.6)	(1.6)	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	7.6	–	(39.0)	5.8	–
Interest and principal repayments – EUR	376.5	3.32%/ 3M LIBOR + 125.3bps	(10.4)	–	(9.4)	12.0	–

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
	31 December 2021							
Foreign currency purchase contracts								
Purchases in foreign currency – USD	(16.3)	16.3	–	Cost of sales	32.9	–	–	Inventories
Purchases in foreign currency – EUR	19.4	(19.4)	–	Cost of sales	0.3	–	–	Inventories
Purchases in foreign currency – CAD	(4.2)	4.2	–	Cost of sales	–	–	–	Inventories
Foreign currency denominated debt								
Interest and principal repayments – USD	(7.6)	7.6	–	Interest payable and similar charges	–	(6.2)	–	Interest payable and similar charges
			–	Foreign exchange gains/ (losses)	–	1.7	–	Foreign exchange gains/ (losses)
Interest and principal repayments – EUR	10.4	(10.4)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
			–	Foreign exchange gains/ (losses)	–	24.3	–	Foreign exchange gains/ (losses)

7.2 Financial risk management continued

7.2.3 Interest rate risk

The Group has exposure to interest rate risk, principally in relation to variable rate debt, cash and cash equivalents and the RCF, should it be drawn. The Group has Sterling Overnight Index Average (SONIA) floating-to-fixed interest rate swaps to fix the interest payments on the £375 million private placement issued in 2019. For the 2020 Infrastructure private placement facilities, the Group has fixed the interest rate payable on the £98 million of GBP denominated facilities through floating-to-fixed SONIA interest rate swaps. The Group had a number of GBP London Interbank Offered Rate (LIBOR)-linked derivative and non-derivative financial instruments with maturity dates beyond 31 December 2021, the date LIBOR ceased publication. As such, during the prior year the Group's IBOR programme transitioned these financial instruments away from GBP LIBOR to SONIA.

The Group has also fixed the interest rate payable on the variable rate EUR denominated 2020 Infrastructure private placement debt through Euro Interbank Offered Rate (EURIBOR) floating-to-fixed cross-currency interest rate swaps. As detailed in section 7.2.2 above, the floating-to-fixed cross-currency interest rate swaps are hedging both interest rate risk and foreign currency risk, and as such the disclosures relating to interest rate risk are included in this section. See note 7.2.2 for the foreign currency risk disclosures relating to the floating-to-fixed cross-currency interest rate swaps.

At 31 December 2022, the Group has fixed interest rate payments in GBP on all of its debt instruments through the use of swaps, with the exception of the Group's CAD denominated debt, which is the only outstanding debt that remains variable and does not have fixed interest rate payments.

The returns generated on the Group's cash balance, or payable on amounts drawn on the RCF, are exposed to movements in short-term interest rates. The Group actively manages cash balances to protect against adverse changes in interest rates whilst retaining liquidity.

Further information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.2.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the reporting date was outstanding for the whole year.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase or decrease in interest rates. The analysis assumes all other variables are held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
As at 31 December 2022				
Variable rate debt – unhedged	**(1.4)**	**1.4**	**–**	**–**
Variable rate debt – hedged	**(4.2)**	**4.2**	**–**	**–**
Interest rate swaps	**4.2**	**(4.2)**	**10.1**	**(10.1)**
Net impact	**(1.4)**	**1.4**	**10.1**	**(10.1)**
As at 31 December 2021				
Variable rate debt – unhedged	(1.4)	1.4	–	–
Variable rate debt – hedged	(4.0)	0.7	–	–
Interest rate swaps	4.0	(0.7)	14.6	(11.3)
Net impact	(1.4)	1.4	14.6	(11.3)

An increase or decrease in interest rates would affect profit after tax as a result of the impact on the interest payable in the period on any variable rate debt. The Group has reduced its exposure to interest rate risk on variable rate debt through the use of floating-to-fixed interest rate swaps and therefore a change in interest rates would not have a significant effect on profit after tax. The Group designates certain floating-to-fixed interest rate swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase or decrease in interest rates in relation to the impact on the hedge reserve of these movements.

Certain amounts of the Group's variable rate debt and interest rate swaps have a floor of 0% for the benchmark interest rate. As a result of very low or negative benchmark interest rates in 2021, a 100 basis point increase had a larger impact on profit after tax and other components of equity, than a 100 basis points decrease. Given the increase in interest rates during the year a larger decrease in interest rates would be needed to reach the 0% floor and therefore in the sensitivities above for the current year an increase and a decrease in interest rates have a more comparable impact. The Group also has CAD denominated debt that has a variable rate based on Canadian Dollar Offered Rate (CDOR). At 31 December 2022 no swaps were in place to hedge the CAD denominated debt. Therefore in relation to this debt a change in interest rates has an impact on profit after tax but not on other components of equity.

Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

7.2 Financial risk management continued

Hedge accounting

The Group designates its floating-to-fixed SONIA interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The SONIA interest rate swaps are hedges of the interest payments relating to the £375 million private placement (2019) and the £98 million GBP facility part of the 2020 Infrastructure private placement. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the variable rate €95 million facility part of the 2020 Infrastructure private placement. As such this has been separated into synthetic floating-to-floating cross-currency interest rate swaps and synthetic floating-to-fixed GBP interest rate swaps. The synthetic floating-to-floating cross-currency interest rate swaps swap the €95 million variable rate EURIBOR linked debt to variable rate SONIA linked GBP debt with a principal of £85.8 million. The synthetic floating-to-fixed GBP interest rate then swaps the variable interest rate for a fixed GBP interest rate. Details of the floating-to-fixed SONIA interest rate swaps are included in the disclosures below.

Gains and losses on the interest payments on interest rate swaps are released to interest payable and similar charges at the same time as the interest is expensed on the hedged borrowings.

The main sources of ineffectiveness relating to interest rate risk hedges are differences in the critical terms, differences in repricing dates and credit risk.

A summary of the amounts relating to the sterling interest rate hedging instruments and any related ineffectiveness in the period is presented in the table below.

	31 December 2022						
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Interest rate							
Variable rate GBP debt	**558.8**	**1.06%**	**39.9**	**37.5**	**–**	**31.7**	**–**

	31 December 2022							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Interest rate								
Variable rate GBP debt	**(39.9)**	**39.9**	**–**	**Interest payable and similar charges**	**–**	**(3.1)**	**–**	**Interest payable and similar charges**

	31 December 2021						
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Interest rate							
Variable rate GBP debt	558.8	1.06%	19.3	4.6	–	4.2	–

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Interest rate								
Variable rate GBP debt	(21.0)	19.3	–	Interest payable and similar charges	–	3.3	–	Interest payable and similar charges

Section 7: Risk management continued

7.2 Financial risk management continued

7.2.4 Inflation risk

The Group is exposed to inflation risk on elements of its revenues and cost base. The Group's ROC revenue is linked to UK RPI and its CfD income is linked to UK CPI (see note 2.2 for further information on ROC and CfD income). In addition, a proportion of the Group's fuel costs are linked to either US or Canadian CPI. The Group has UK CPI and RPI swaps to hedge certain revenues linked to inflation.

Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates on inflation linked derivatives at the reporting date.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in inflation rates. The analysis assumes all other variables are held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
As at 31 December 2022				
UK CPI inflation swaps	–	–	(34.8)	29.2
UK RPI inflation swaps	(0.7)	1.1	(52.8)	50.9

	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
As at 31 December 2021				
UK CPI inflation swaps	–	–	(6.0)	6.0
UK RPI inflation swaps and swaptions	(38.9)	37.2	(48.5)	46.6

The Group designates the UK CPI and RPI inflation swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to the impact on inflation linked derivatives recognised in the hedge reserve of an increase or decrease in UK inflation rates. Profit after tax is sensitive to an increase or decrease in UK inflation rates due to the impact these rate changes would have on the over-hedged portion of the inflation swaps, with this impact being recognised directly in the Consolidated income statement. Profit after tax in 2021 was sensitive to the impact on inflation linked derivatives of an increase or decrease in UK inflation rates due to the impact this would have on the fair value of the unhedged UK RPI inflation swaptions.

Inflation risk management

The Group has a risk management policy in place relating to inflation risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast inflation exposure.

Hedge accounting

The Group has contracts for which the revenue is contractually linked to UK CPI inflation. The Group has designated this risk component as a hedged item. UK CPI and UK RPI inflation swaps are utilised as the hedging instruments for these inflation risks.

Gains and losses on the inflation swaps are held in the hedge reserve and reclassified to revenue in the Consolidated income statement at the same time the revenue with inflation linked contracts impacts on the Consolidated income statement or if the hedged item is on longer expected to occur.

The main sources of ineffectiveness relating to the inflation swaps are the basis point difference between the RPI swaps and the CPI-linked revenues they are hedging, calculation differences, and the hedged item no longer being expected to occur. Calculation differences occur due to differences between the reference months used to calculate the inflationary increase per the swaps and the reference months used to calculate the inflationary increase for the CPI-linked revenues.

During the current year, as a result of a decrease in the forecast CfD generation, the Group has recycled £39.5 million of losses on hedge accounted inflation linked derivative contracts to the Consolidated income statement, due to the hedged item no longer being expected to occur. The Group has also recognised £18.5 million of ineffectiveness due to the basis difference between the RPI hedging instruments and the CPI exposure.

7.2 Financial risk management continued

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

	31 December 2022						
Exposure	Notional value of contracts £m	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	30.3	CPI – 2.72%	(13.3)	–	(23.8)	(18.1)	14.6
	440.0	RPI – 3.45%	(144.0)	–	(283.5)	(71.1)	–

	31 December 2022							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales contracts – CPI	13.3	(13.3)	–	Revenue	–	(2.0)	(3.5)	Revenue
	125.5	(125.5)	(18.5)	Revenue	–	7.2	43.0	Revenue

	31 December 2021						
Exposure	Notional value of contracts £m	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	30.3	CPI – 2.72%	(15.7)	1.3	(11.5)	(10.9)	22.0
	495.0	RPI – 3.42%	(19.5)	–	(82.2)	(15.2)	–

	31 December 2021							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging losses recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales contracts – CPI	15.7	(15.7)	–	Revenue	–	(2.2)	–	Revenue
	21.7	(19.5)	–	Revenue	–	–	–	Revenue

7.2.5 Liquidity risk

The Treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items, principally those related to ROC sales and Customers' power sales. In each case this is undertaken on a non-recourse basis and, accordingly, the ROC assets and other items are derecognised from the Consolidated balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.3.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest payments or receipts are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

Section 7: Risk management continued

7.2 Financial risk management continued

	As at 31 December 2022					
	Within 3 months £m	3 months–1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	10.5	32.4	353.3	338.5	144.9	879.6
Loan notes, gross value	–	33.3	33.3	663.6	–	730.2
Borrowings, contractual maturity	10.5	65.7	386.6	1,002.1	144.9	1,609.8
Trade and other payables	920.0	143.3	2.0	0.6	–	1,065.9
Lease liabilities	8.3	22.0	26.7	64.3	72.0	193.3
	938.8	231.0	415.3	1,067.0	216.9	2,869.0

Trade and other payables of £1,065.9 million (2021: £869.5 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

	As at 31 December 2021					
	Within 3 months £m	3 months–1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	46.4	14.7	17.5	650.9	138.7	868.2
Loan notes, gross value	–	30.0	30.0	639.6	–	699.6
Borrowings, contractual maturity	46.4	44.7	47.5	1,290.5	138.7	1,567.8
Trade and other payables	826.9	40.1	0.6	0.7	1.2	869.5
Lease liabilities	5.5	15.7	18.9	46.4	78.4	164.9
	878.8	100.5	67.0	1,337.6	218.3	2,602.2

Interest payments are calculated based on forward interest rates estimated at the reporting date using publicly available information.

The weighted average interest rate payable at the reporting date on the Group's borrowings was 4.14% (2021: 3.49%).

The following tables set out details of the expected contractual maturity of derivative financial liabilities which are marked-to-market. Where the amount payable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, foreign currency exchange rates, inflation rates or interest rates, as illustrated by the yield or other forward curves existing at the reporting date. Where derivatives are expected to be gross settled, the gross cash flows have been presented. Commodity contracts and vanilla foreign currency exchange contracts are expected to be gross settled. Where derivatives are expected to be net settled, the undiscounted net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards and swaps) are expected to be net settled. Interest rate contracts and inflation rate contracts are presented based on net settlement of the interest rate and inflation rate differentials. Gross settlement of both the interest and principal on cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

	As at 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	1,006.0	12.1	3.6	1,021.7
Financial contracts	322.8	161.7	1.0	485.5
Foreign currency exchange contracts	921.4	45.4	47.8	1,014.6
Interest rate and cross-currency contracts	8.2	0.1	0.2	8.5
Inflation contracts	67.3	83.1	203.8	354.2
	2,325.7	302.4	256.4	2,884.5

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	175.9	27.4	2.1	205.4
Financial contracts	45.1	55.8	1.5	102.4
Foreign currency exchange contracts	2,306.9	148.7	705.3	3,160.9
Interest rate and cross-currency contracts	3.1	43.9	1.0	48.0
Inflation contracts	52.0	10.1	78.2	140.3
	2,583.0	285.9	788.1	3,657.0

7.2 Financial risk management continued

7.2.6 Credit risk

The Group's gross exposure to credit risk for financial instruments is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	As at 31 December	
	2022 £m	2021 £m
Financial assets:		
Cash and cash equivalents (note 4.1)	**238.0**	317.4
Trade and other receivables (note 3.5)	**1,167.8**	599.7
Derivative financial instruments (note 7.1)	**1,218.0**	1,246.1
	2,623.8	2,163.2

Trade and other receivables are stated gross of the provision for expected credit losses on trade receivables of £60.9 million (2021: £46.6 million), expected credit losses on accrued income of £7.6 million (2021: £8.6 million) and contingent consideration of £27.4 million (2021: £27.7 million). The balance excludes non-financial receivables such as prepayments.

The Group's three reportable segments (Pellet Production, Generation and Customers) are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers.

The Pellet Production segment sells biomass pellets both intra-group and to external parties. Credit risk for the Group relates to the sales made to external parties. The majority of the Pellet Production segment's external sales are with large utility customers in Europe and Asia. The Pellet Production segment manages its credit risk by reviewing individual sales contracts, considering the length of the contract and assessing the credit quality of counterparties prior to signing contracts and throughout the duration of contracts.

For the Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as the sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating. Counterparty credit exposures are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of Parent Company guarantee, deeds of charge, cash collateral, letters of credit and surety bonds. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The highest credit risk exposure is in the Customers segment, with a large number of customers of varying sizes operating in a variety of markets. In particular, its SME customers carry lower concentrations but higher levels of credit risk, owing to a customer base comprised of smaller retail and commercial entities. Credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector.

Further details on the impact of credit risk on trade and other receivables is disclosed in note 3.5.

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements and maximum investments with any one counterparty based on their rating and the maturity profile.

Whilst cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group is exposed to credit risk on derivative contracts, to which the impairment requirements of IFRS 9 are not applied as the fair value requirements of IFRS 13 are applicable. The carrying amount of these financial assets, disclosed above, represents the Group's maximum credit risk exposure.

Section 7: Risk management continued

7.2 Financial risk management continued

Counterparty risk

As the Group relies on third-party suppliers and counterparties for the delivery of currency, biomass pellets and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. For financial instruments this risk is limited to the credit risk, as discussed above. The Group is also exposed to counterparty risk on non-financial instruments, such as the purchases of biomass and capital expenditure. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into purchase and sale contracts for a wider variety of goods and services, for example the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform under their contractual obligations may cause the Group financial distress or increase the risk profile of the Group. The Group has acceptance procedures in place to ensure the counterparties the Group contracts with are appropriate. The Group also has limits in place, and actively monitors its exposures to individual counterparties to minimise this risk.

Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintain a strong credit rating underpinned by robust financial metrics; invest in its core business and pay a sustainable and growing dividend whilst maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus Net debt. Net debt is comprised of borrowings, cash and cash equivalents attributable to owners of the Parent Company and is inclusive of the impact of associated hedging instruments as disclosed in note 2.7.

See note 4.2 for details of loan covenants, and the Viability statement on page 75 for details of scenario analysis performed on covenant restrictions of the Group's financing facilities.

	As at 31 December	
	2022 £m	2021 £m
Borrowings (note 4.2)	**1,440.9**	1,361.0
Cash and cash equivalents (note 4.1)	**(238.0)**	(317.4)
Non-controlling interests share of cash and cash equivalents in non-wholly owned subsidiaries	**0.7**	–
Impact of hedging instruments	**2.4**	64.4
Net debt (note 2.7)	**1,206.0**	1,108.0
Total shareholders' equity attributable to the owners of the Parent Company, excluding hedge and cost of hedging reserves	**1,422.7**	1,384.2

In 2022, the Group has updated its definition of Net debt. The above table has been re-presented to reflect this updated definition. See the Net debt section in the Basis of preparation for further details on this change in definition.

7.3 Hedge reserve

The Group designates certain hedging instruments that are used to address commodity price risk, foreign exchange risk, interest rate risk and inflation rate risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

The table below details the gains and (losses) recognised in the current and prior year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting the Consolidated income statement, and the amounts reclassified due to the hedged future cash flows no longer being expected to occur. See section 7.2 for further details on these amounts.

	Hedge reserve				
	Commodity price risk £m	Foreign currency exchange risk £m	Interest rate risk £m	Inflation rate risk £m	Total £m
At 1 January 2021	(3.4)	(84.8)	(13.8)	26.0	(76.0)
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(163.3)	(1.7)	19.3	(35.2)	(180.9)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	–	33.2	–	–	33.2
– Reclassified to the Consolidated income statement – included in cost of sales	(17.2)	–	–	–	(17.2)
– Reclassified to the Consolidated income statement – included in revenue	6.3	–	–	(2.2)	4.1
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	(3.6)	3.3	–	(0.3)
– Reclassified to the Consolidated income statement – included in foreign exchange gains/(losses)	–	26.0	–	–	26.0
Related deferred tax, net (note 2.6)	39.4	(8.4)	(4.6)	7.3	33.7
At 1 January 2022	**(138.2)**	**(39.3)**	**4.2**	**(4.1)**	**(177.4)**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	**(538.6)**	**249.9**	**39.9**	**(138.8)**	**(387.6)**
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventories	**–**	**(19.1)**	**–**	**–**	**(19.1)**
– Reclassified to the Consolidated income statement – included in cost of sales	**0.1**	–	–	–	**0.1**
– Reclassified to the Consolidated income statement – included in revenue	**459.8**	–	–	**5.2**	**465.0**
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	**(6.6)**	**(3.1)**	–	**(9.7)**
– Reclassified to the Consolidated income statement – included in foreign exchange gains/(losses)	–	**(62.0)**	–	–	**(62.0)**
– Reclassified to Revenue as hedged item no longer expected to occur	**–**	**–**	**–**	**39.5**	**39.5**
Related deferred tax, net (note 2.6)	**24.1**	**(39.2)**	**(9.3)**	**23.6**	**(0.8)**
At 31 December 2022	**(192.8)**	**83.7**	**31.7**	**(74.6)**	**(152.0)**

Section 7: Risk management continued

7.3 Hedge reserve continued

The expected release profile from equity of post-tax hedging gains and (losses) is as follows:

	As at 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(167.4)	(22.3)	(3.1)	(192.8)
Foreign currency exchange risk	49.6	23.3	10.8	83.7
Interest rate risk	11.2	11.9	8.6	31.7
Inflation risk	(3.3)	(17.1)	(54.2)	(74.6)
	(109.9)	(4.2)	(37.9)	(152.0)

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(20.9)	(110.2)	(7.1)	(138.2)
Foreign currency exchange risk	(28.0)	(9.0)	(2.3)	(39.3)
Interest rate risk	(0.6)	1.2	3.6	4.2
Inflation risk	(0.5)	(0.4)	(3.2)	(4.1)
	(50.0)	(118.4)	(9.0)	(177.4)

7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of hedge accounted foreign currency derivative contracts to a cost of hedging reserve in accordance with IFRS 9.

A large proportion of the derivative contracts held relate to foreign currency exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, for foreign currency exchange contracts to which the Group has applied hedge accounting, the Group has continued to designate the change in the spot rate as the hedged risk in the Group's cash flow hedge relationships. The Group designates the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. All amounts within the cost of hedging reserve relate to foreign currency exchange risk.

The table below details the cost of hedging gains or (losses) recognised in the year on hedging instruments and the amounts reclassified from equity due to the hedged item affecting the Consolidated income statement:

	Cost of hedging	
	2022 £m	2021 £m
At 1 January	**78.5**	87.2
(Losses)/gains recognised:		
– Change in fair value of hedging instrument recognised in the Consolidated statement of comprehensive income	**(19.0)**	17.3
Reclassified from equity as the hedged item has affected profit or loss:		
– Reclassified to cost of inventories	**(28.8)**	(23.7)
Related deferred tax, net (note 2.6)	**9.4**	(2.3)
At 31 December	**40.1**	78.5

The expected release profile from equity of post-tax cost of hedging gains and (losses) is as follows:

	As at 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	21.7	13.0	5.4	40.1

	As at 31 December 2021			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	25.5	28.3	24.7	78.5

7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the Consolidated balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group also has financial assets and liabilities with certain counterparties that are subject to master netting agreements. Some financial assets and liabilities do not meet the criteria for offsetting at the reporting date but are subject to an enforceable master netting agreement that in certain circumstances, such as a bankruptcy, would allow for the amounts to be offset and a single net amount payable.

The table below shows the impact if the carrying amounts that are subject to these master netting agreements were offset:

	As at 31 December 2022				As at 31 December 2021			
	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m
Financial assets								
Derivative financial instruments	**1,218.0**	**(1,278.6)**	**234.0**	**173.4**	1,246.1	(1,008.3)	(183.0)	54.8
Financial liabilities								
Derivative financial instruments	**(1,724.8)**	**1,278.6**	**–**	**(446.2)**	(1,504.5)	1,008.3	10.2	(486.0)

The aforementioned collateral assets and liabilities are recorded in other receivables and other payables respectively, see note 4.3.

7.6 Contingent assets and liabilities

Contingent assets are potential future inflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any receipt is uncertain and cannot be measured reliably.

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

Guarantees

In addition to the amounts drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2022, the Group's contingent liability in respect of letters of credit issued amounted to £85.9 million (2021: £74.4 million), of which £46.0 million (2021: £74.4 million) was issued under the RCF.

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £202.0 million (2021: £142.1 million).

Collateral is sometimes required to be provided in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be provided to the counterparty. These positions reverse when contracts are settled, and the collateral is returned. The Group has access to certain facilities to enable it to cover collateral requirements to counterparties through letters of credit or surety bonds.

The letters of credit and surety bond figures above include amounts utilised to cover commodity trading collateral requirements of £54.5 million (2021: £42.5 million) and £165.0 million (2021: £107.1 million) respectively. See note 4.1 for details on net cash collateral the Group has paid to or received from counterparties.

Contingent liabilities

Smart meter targets

In late February 2023, the Group received notice from Ofgem that its failure to fully achieve installation targets for Smart Meter installations in the Opus Energy business during 2022 had been referred to Ofgem's Enforcement team. They will consider this matter in due course and make a decision on any future action. No amount has been provided in respect of this matter in the Consolidated financial statements, given the early stage of the process and the uncertainty in future outcome.

Contingent assets

Billing system

Drax Energy Solutions Limited has lodged a claim against a supplier for damages caused by the supplier's misrepresentation and failure to perform under a contract for delivery of a new billing system. The directors have considered the potential legal outcomes of the claim with external professional advisors and believe that a favourable outcome is probable. However, a contingent asset is disclosed rather than a receivable recognised at 31 December 2022, as receipt of the amount is dependent on the outcome of the claim and therefore it is not virtually certain to be received.

Section 7: Risk management continued

7.7 Commitments

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the Consolidated balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of sustainable biomass, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2022 £m	2021 £m
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Property, plant and equipment	**267.9**	28.6
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Intangible assets	**0.2**	–
Future support and service contracts not provided in the Consolidated financial statements	**60.1**	51.2
Future commitments to purchase ROCs	**331.9**	200.5
Future commitments to purchase biomass under fixed and variable priced contracts	**3,250.0**	3,466.9
Future commitments to purchase fibre under fixed and variable priced contracts	**242.5**	356.8

Commitments for future capital expenditure of property, plant and equipment have increased predominantly due to the construction of the OCGT plants.

The contractual maturities of the future commitments to purchase biomass are as follows:

	As at 31 December	
	2022 £m	2021 £m
Within one year	**829.5**	828.4
Within one to five years	**1,123.4**	2,623.7
After five years	**1,297.1**	14.8
	3,250.0	3,466.9

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable biomass pellets for use in electricity generation at Drax Power Station. To the extent these contracts relate to the purchase of biomass pellets, they are not reflected elsewhere in the financial statements owing as they are not within the scope of IFRS 9, and are therefore not required to be measured at fair value. See the Critical accounting judgements section in the Basis of preparation for further details on this judgement.

Section 8: Reference information

This section details reference information relevant to the compiling of the Consolidated financial statements and provides general information about the Group (e.g. operations and registered office). This section also sets out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act 2006. The Company and its subsidiaries (together, the Group) have three principal activities:

- Production and subsequent sale of biomass pellets for use in electricity production;
- Electricity generation; and
- Electricity and gas supply to business customers.

The Group's activities are principally based within the UK and North America.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these Consolidated financial statements.

8.2 Adoption of new and revised accounting standards

The following amendments became effective for the first time in 2022. The Group adopted the following from 1 January 2022:

- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.
- IAS 37 (amended) – Onerous Contracts: Cost of Fulfilling a Contract – effective from 1 January 2022.
- IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.
- IFRS 3 (amended) – Reference to the Conceptual Framework – effective from 1 January 2022.

The adoption of these amendments in the current year has not had a material impact on the Consolidated financial statements.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these Consolidated financial statements, were in issue but not yet effective.

- IFRS 10 (amended) – Consolidated Financial Statements – effective date deferred indefinitely.*
- IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*
- IFRS 16 (amended) – Lease Liability in a Sale and Leaseback – effective from 1 January 2024.*
- IFRS 17 Insurance Contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current or Non-Current – effective from 1 January 2024.*
- IAS 1 (amended) – Non-current Liabilities with Covenants – effective from 1 January 2024.*
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023.
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023.
- IAS 12 (amended) – Deferred Tax related to Assets and Liabilities arising from a single Transaction – effective from 1 January 2023.

* Pending endorsement by the UK Endorsement Board (UKEB).

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the Consolidated financial statements of the Group. The Group will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom.

Section 8: Reference information continued

8.3 Related party transactions

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to the Group by investment (such as an associated company or joint venture). The Group's related parties are primarily its associate and its key management personnel. Amounts below are the total amount of transactions that have been entered into with any related parties in the year.

Houston Pellet Limited Partnership (HPLP)

HPLP is owned 30% by the Group and 70% by non-related third parties. The Group purchases biomass pellets from HPLP. The Group manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Group and the non-related third parties.

The transactions in the period and the balances at the reporting date with the related party are summarised below:

		Transactions in the period to 31 December 2022			Balances as at 31 December 2022[1]	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	**30%**	**0.1**	**18.2**	**1.7**	**0.4**

		Transactions in the period to 31 December 2021(2)			Balances as at 31 December 2021[1]	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.2	10.3	1.4	0.6

(1) The amounts payable to and receivable from HPLP are unsecured and non-interest bearing.
(2) The transactions in the period to 31 December 2021 represent the transactions from the acquisition date of 13 April 2021 to the reporting date.

Remuneration of key management personnel

The remuneration of the Directors and Executive management, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of the Company, is provided in the audited part of the Remuneration Committee report.

	Year ended 31 December	
	2022 £000	2021 £000
Short-term employee benefits	**7,531**	6,755
Share-based payments	**3,964**	2,826
Post-employment benefits	**489**	635
Total remuneration	**11,984**	10,216

Compensation of the Group's key management personnel includes short-term employee benefits, which includes salaries, other short-term benefits, and contributions to post-employment money purchase pension schemes.

Share-based payments compensation represents the amounts receivable under share-based incentive schemes as disclosed in note 6.2.

Amounts included in the table above reflect the remuneration of the 17 (2021: 17) members of the Board and Executive management.

There were no other transactions with directors for the periods covered by these Consolidated financial statements.

Company financial statements

Company balance sheet

	Notes	As at 31 December 2022 £000	2021 £000
Non-current assets			
Investment in subsidiaries	5	**742,016**	732,400
Deferred tax assets		**–**	1
		742,016	732,401
Current assets			
Other receivables		**100**	114
Amounts due from other Group companies		**110,801**	3,638
Cash and cash equivalents		**2,056**	3,939
		112,957	7,691
Current liabilities			
Amounts due to other Group companies		**(719)**	(4,248)
Net current assets		**112,238**	3,443
Net assets		**854,254**	735,844
Shareholders' equity			
Issued equity	6	**47,925**	47,716
Share premium		**433,281**	432,191
Treasury shares		**(50,440)**	(50,440)
Capital redemption reserve		**1,502**	1,502
Retained profits		**421,986**	304,875
Total shareholders' equity		**854,254**	735,844

The Company reported a profit for the financial year ended 31 December 2022 of £186.5 million (2021: £78.1 million).

These financial statements were approved and authorised for issue by the Board of directors on 22 February 2023.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Company financial statements continued

Company statement of changes in equity

	Issued equity £000	Share premium £000	Treasury shares[1] £000	Capital redemption reserve £000	Retained profits £000	Total £000
At 1 January 2021	47,460	429,974	(50,440)	1,502	290,283	718,779
Issue of share capital (note 6)	256	2,217	–	–	–	2,473
Profit and total comprehensive income for the year	–	–	–	–	78,103	78,103
Movement in equity associated with share-based payments	–	–	–	–	7,388	7,388
Equity dividends paid (note 7)	–	–	–	–	(70,899)	(70,899)
At 1 January 2022	**47,716**	**432,191**	**(50,440)**	**1,502**	**304,875**	**735,844**
Issue of share capital (note 6)	209	1,090	–	–	–	1,299
Profit and total comprehensive income for the year	–	–	–	–	186,533	186,533
Movement in equity associated with share-based payments	–	–	–	–	9,479	9,479
Equity dividends paid (note 7)	–	–	–	–	(78,901)	(78,901)
At 31 December 2022	**47,925**	**433,281**	**(50,440)**	**1,502**	**421,986**	**854,254**

(1) The 13.8 million shares held in this reserve have no voting rights attached to them.

Notes to the Company financial statements

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The principal activity of the Company is being the ultimate Parent Company of the Drax Group plc group of companies.

The financial statements have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'.

The Company applied certain new and amended standards for the first time in 2022. The full list of standards adopted is set out in the Consolidated financial statements in note 8.2. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the Consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below and have been consistently applied to both years presented.

2. Summary of significant accounting policies

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained profits.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Impairment of financial assets

The Company applies the impairment model in IFRS 9 to provide for expected credit losses on its financial assets including amounts due from other Group companies and other financial assets. The provision for impairment of amounts owed by Group companies is measured at an amount equal to the lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If there has not been a significant increase in credit risk since initial recognition, a 12-month expected credit loss provision is recognised.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

There were no critical accounting judgements made in preparation of the Company's financial statements.

Key sources of estimation uncertainty

There were no areas of significant estimation uncertainty within the Company's financial statements.

4. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the years ended 31 December 2022 and 31 December 2021. The Company's financial statements were approved by the Board on 22 February 2023. The net profit attributable to the Company is £186.5 million (2021: £78.1 million).

The Company received dividend income from its subsidiary undertakings totalling £185.0 million in 2022 (2021: £80.0 million).

The Company has no employees other than the Directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2022 was £26,078 (2021: £23,774).

Notes to the Company financial statements continued

5. Fixed asset investments

	Year ended 31 December	
	2022 £000	2021 £000
Carrying amount:		
At 1 January	**732,400**	724,911
Capital contribution	**9,616**	7,489
At 31 December	**742,016**	732,400

Investments in subsidiary undertakings

The capital contribution in 2022 and 2021 relates to the share-based payment charges associated with the employee share schemes, which arise because the beneficiaries of the schemes are employed by subsidiary companies. For more information see note 6.2 to the Consolidated financial statements.

Full list of related undertakings

The table below lists the Company's direct and indirect related undertakings as at 31 December 2022:

Name and nature of business	Principal activity	Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	08190497	100
Abbott Debt Recovery Limited***	Non-trading company	England and Wales	Ordinary	05355799	100
Alabama Pellets LLC*	Fuel supply	Delaware, USA	Common	7064679	100
Amite BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128116	100
Arkansas Bioenergy LLC*	Fuel supply	Delaware, USA	Common	7881707	100
Baton Rouge Transit LLC*	Fuel supply	Delaware, USA	Common	5128759	100
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470	100
Demopolis Pellets LLC*	Fuel supply	Delaware, USA	Common	6314280	100
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298	100
Drax Asia (Japan) K.K.>	Provision of corporate services	Japan	Common	0100-01-227551	100
Drax Biomass Acquisitions LLC*	Non-trading company	Delaware, USA	Common	7897331	100
Drax Biomass Inc.*	Wood pellet manufacturing	Delaware, USA	Common	5068290	100
Drax Biomass Holdings Limited***	Holding company	England and Wales	Ordinary	08322715	100
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	5128115	100
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	5250168	100
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	5128118	100
Drax CCS Limited	Dormant	England and Wales	Ordinary	07885329	100
Drax Corporate Limited	Group-wide corporate services	England and Wales	Ordinary	05562058	100
Drax Cruachan Expansion Limited***	Non-trading company	England and Wales	Ordinary	06657393	100
Drax Energy Solutions Limited	Power retail	England and Wales	Ordinary	05893966	100
Drax Finco plc	Finance company	England and Wales	Ordinary	10664639	100
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	05299523	100
Drax Netherlands B.V.~	Dormant	Netherlands	Ordinary	81848455	100
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	07821368	100
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429	100
Drax Holdings Limited+	Holding company	Cayman Islands	Ordinary	92144	100
Drax Hydro Limited	Holding company	England and Wales	Ordinary	08654218	100
Drax Innovation Limited***	Development company	England and Wales	Ordinary	10664715	100
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	09824989	100
Drax Power Limited	Power generation	England and Wales	Ordinary	04883589	100
Drax Pumped Storage Limited	Power generation	England and Wales	Ordinary	06657336	100
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	10711130	100
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	06657454	100
Drax River Hydro Limited	Power generation	England and Wales	Ordinary	05956747	100
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	07821911	100
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	07821375	100
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	10664625	100

5. Fixed asset investments continued

Name and nature of business	Principal activity	Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Farmoor Energy Limited***	Power retail	England and Wales	Ordinary	07111074	100
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428	100
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	07352734	100
Hirwaun Power Limited***	Power generation	England and Wales	Ordinary	08190283	100
Houston Pellet Inc.**	General partner	Richmond, Canada	Common	BC0730544	33
Houston Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0428310	30
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704	100
Jefferson Transit LLC*	Dormant	Delaware, USA	Common	6297176	100
LaSalle Bioenergy LLC*	Fuel supply	Delaware, USA	Common	6297174	100
Lavington Pellet Inc.**	General partner	Richmond, Canada	Common	BC1022038	75
Lavington Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0649393	75
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	08920458	100
Morehouse BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128117	100
Northern Pellet Inc.**	General partner	Richmond, Canada	Common	BC1213828	50
Northern Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Class A and Class C	LP781774	50
Opus Energy (Corporate) Limited	Power retail	England and Wales	Ordinary	05199937	100
Opus Energy Limited	Power retail	England and Wales	Ordinary	04382246	100
Opus Energy Group Limited	Power retail	England and Wales	Ordinary	04409377	100
Opus Energy Marketing Limited***	Non-trading company	England and Wales	Ordinary	05030694	100
Opus Energy Renewables Limited	Power retail	England and Wales	Ordinary	07126582	100
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956	100
Opus Gas Supply Limited	Power retail	England and Wales	Ordinary	06874709	100
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319	100
Pinnacle Renewable Energy Inc.**	Fuel supply	Richmond, Canada	Common	BC1300366	100
Pinnacle Renewable Holdings (USA) Inc.*	Holding company	Delaware, USA	Common	7043656	100
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036	100
Progress Power Limited***	Power generation	England and Wales	Ordinary	08421833	100
Smithers Pellet Inc.**	General partner	Richmond, Canada	Common	BC1135983	70
Smithers Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP730047	70
SMW Limited^	Fuel supply	Scotland	Ordinary	SC165988	100
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	09735929	100
Tyler Bioenergy LLC*	Dormant	Delaware, USA	Common	6297175	100

Registered Office

Incorporated in England and Wales
The registered address of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

***Incorporated in the USA**
The registered address of all related undertakings incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

****Incorporated in Canada**
The registered address of all related undertakings incorporated in Canada is 2800 Park Place, 666 Burrard Street, Vancouver, BC V6C 2Z7

^Incorporated in Scotland
The registered address of all related undertakings incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

+Registered in Cayman Islands
The registered address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, One Nexus Way, Camana Bay, George Town, Grand Cayman KY1 9005, Cayman Islands.

~Registered in Netherlands
The address of Drax Netherlands B.V. registered in Netherlands is Barbara Strozzilaan 101, Amsterdam, 1083HN.

Notes to the Company financial statements continued

5. Fixed asset investments continued

>Registered in Japan

The address of Drax Asia (Japan) K.K. registered in Japan is Level 2, Marunouchi Nijubashi Building, 3-2-2 Marunouchi, Chiyoda-ku, Tokyo.

*****Exempt from audit**

These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2022 statutory accounts. These companies are all incorporated in England and Wales.

Abbott Debt Recovery Limited, Opus Energy Marketing Limited and all undertakings incorporated in Canada have 30 December 2022 year ends. All other related undertakings have 31 December 2022 year ends.

The Group consolidates all of the related undertakings disclosed above apart from:

- Northern Pellet Inc. and Northern Pellet Limited Partnership which are proportionately consolidated; and
- Houston Pellet Inc. and Houston Pellet Limited Partnership which are equity accounted.

6. Issued equity

	As at 31 December	
	2022 £000	2021 £000
Issued and fully paid:		
2022: 414,872,491 (2021: 413,068,027) ordinary shares of 11 $^{16}/_{29}$ pence each	**47,925**	47,716

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2022 (number)	2021 (number)
At 1 January	**413,068,027**	410,848,934
Issued under employee share schemes	**1,804,464**	2,219,093
At 31 December	**414,872,491**	413,068,027

The Company has only one class of shares, which are ordinary shares of 11 $^{16}/_{29}$ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. From January to December 2022, shares were issued in satisfaction of options vesting in accordance with the rules of the Company's employee share schemes.

The total cash received, split between nominal value and share premium, is shown in the Company statement of changes in equity on page 278.

Full details of share options outstanding are included in note 6.2 to the Consolidated financial statements.

7. Dividends

	Year ended 31 December	
	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2022 of 8.4 pence per share paid on 7 October 2022 (2021: 7.5 pence per share paid on 8 October 2021)	**33.7**	29.9
Final dividend for the year ended 31 December 2021 of 11.3 pence per share paid on 13 May 2022 (2020: 10.3 pence per share paid on 14 May 2021)	**45.2**	41.0
	78.9	70.9

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2022 of 12.6 pence per share (equivalent to approximately £50 million) payable on or before 19 May 2023. The final dividend has not been included as a liability as at 31 December 2022.

8. Distributable reserves

The Company considers its distributable reserves to be comprised of the retained profits, less credits in respect of share schemes, less treasury shares, with a total value of £306.3 million (2021: £198.7 million). Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current proposed final dividend for 2022 of approximately £50 million. Based on a total dividend for 2022 of approximately £84 million, the Company has sufficient distributable reserves to pay three years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the Consolidated financial statements for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.1 to the Consolidated financial statements for additional information).

9. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by subsidiary companies. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiaries for the guarantees.

The Company has provided guarantees over the liabilities of its subsidiaries that have taken advantage of the audit exemption available in section 479A of the Companies Act 2006. The list of subsidiaries who have taken this exemption can be found in note 5.

The possibility of an economic outflow in relation to the above guarantees is considered remote.

The Company has granted a charge over the assets of certain subsidiaries, in respect of the Group's borrowings (detailed in note 4.2 to the Consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that is party to the security arrangement. The Company itself is not a guarantor of the Group's borrowings.

Shareholder information

Key dates for 2023

At the date of publication of this document, the following are the proposed key dates in the 2023 financial calendar:

Ordinary shares marked ex-dividend	20 April
Record date for entitlement to the final dividend	21 April
Annual General Meeting	26 April
Payment of final dividend	19 May
Financial half year end	30 June
Announcement of half year results	27 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Group's website www.drax.com as and when they become available.

Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under Regulatory News within the Investors section on the Group's website.

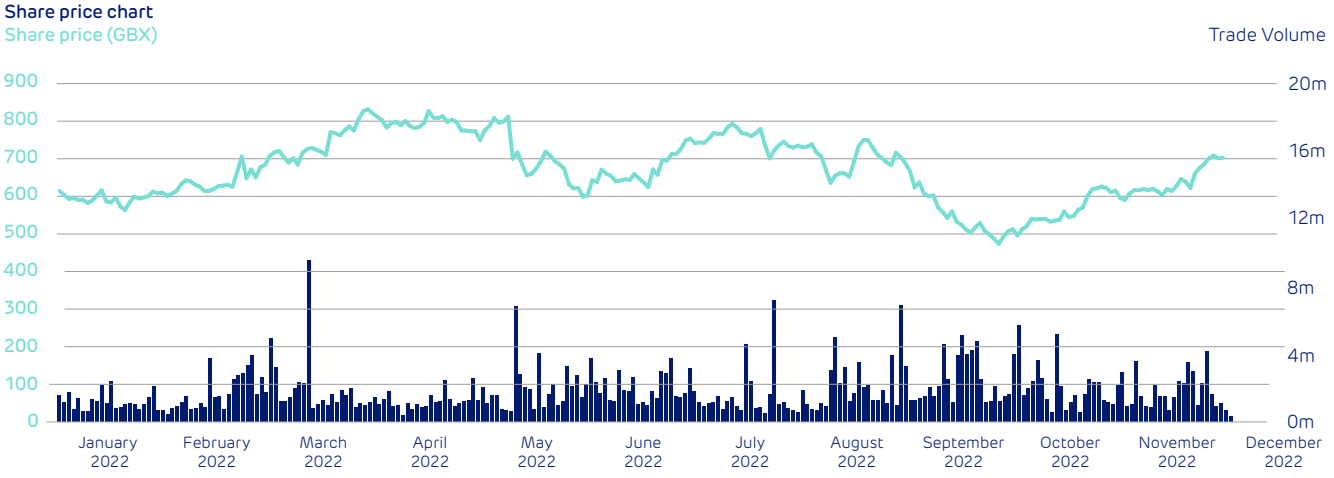
Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on the Company's website. During London Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2022, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2021	Low during the year 21 October 2022	High during the year 6 April 2022	Closing price on 31 December 2022
605.0 pence	473.4 pence	831.5 pence	703.0 pence

Share price chart



Note:
The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2022 was approximately £2,916 million (2021: £2,499 million).

Financial reports

Copies of all financial reports published by the Group are available from the date of publication and can be downloaded from the Company's website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on Contact Us on the website, or direct by e-mail to Drax.Enq@drax.com.

Drax shareholder queries

The Company's share register is maintained by Equiniti Limited (Equiniti), who are primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, (excluding Bank Holidays) or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.co.uk.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. Equiniti are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on the Company's website at www.drax.com/investors/investor-resources/equity-investors-faq/.

Tax on dividends

Below is a brief summary of the guidance provided by HMRC as it relates to the current tax year. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

There is a tax-free Dividend Allowance of £2,000 per annum in the 2022-2023 tax year (2021-2022: £2,000) This means that there is no tax to pay on the first £2,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs are tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £2,001 but less than £10,000 are required to notify HMRC that they have this source of income.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £10,001 are required to file a self-assessment return with HMRC.

The above requirements apply to Share Incentive Plan participants receiving cash dividends on their plan shares.

Further information and updates on tax on dividends can be found on the Gov.UK website at www.gov.uk/tax-on-dividends

Beneficial owners and information rights

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third-party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third-party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Shareholder information continued

Share frauds (boiler room scams)

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence, claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (FCA).

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call them back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Alternative performance measures (APMs) glossary table

The measures described below are used throughout the Annual report and accounts and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's trading performance. These measures have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	The Group's Adjusted results are consistent with the way Executive management and the Board assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis. Adjusted results excludes exceptional items and certain remeasurements. Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting. The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance. Adjusted results are the metrics used in the calculation of Adjusted basic and Adjusted diluted EPS.	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 2.7).
Adjusted EBITDA	Operating profit[1]	Adjusted EBITDA is the primary measure used by Executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of the Group's operations.	Earnings before interest, tax, depreciation and amortisation, gains or losses on disposal of assets, fair value adjustments on contingent consideration, and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA excludes any earnings from associates and Adjusted EBITDA attributable to non-controlling interests. Adjusted EBITDA is stated from both continuing operations and discontinued operations, where appropriate.
Adjusted basic EPS	Basic EPS	Adjusted basic EPS represents the amount of Adjusted earnings (Adjusted post-tax earnings) attributable to each ordinary share.	Adjusted basic EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period.

Alternative performance measures (APMs) glossary table continued

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted diluted EPS	Diluted EPS	Adjusted diluted EPS demonstrates the impact upon the Adjusted basic EPS if all outstanding share options, that are expected to vest on their future maturity dates and where the shares are considered to be dilutive, were exercised and treated as ordinary shares as at the reporting date.	Adjusted diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period and dilutive potential ordinary shares under share plans.
Net debt	Borrowings less cash and cash equivalents	Net debt is a key measure of the Group's liquidity and its ability to manage current obligations. Net debt is used as a basis by debt rating agencies and in the calculation of the Group's financial covenant requirements. The impact of hedging instruments included within Net debt shows the economic substance of the Net debt position, in terms of actual expected future cash flows to settle that debt.	Total borrowings including the impact of hedging instruments less cash and cash equivalents. Total borrowings include external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations (see note 6.3) and trade and other payables (see note 3.7). Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests. Net debt includes the impact of hedging instruments meaning that any borrowings that have hedging instruments in place are adjusted to reflect those borrowings at the hedged rate.
Net debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	The Net debt to Adjusted EBITDA ratio is a debt ratio that gives an indication of how many years it would take the Group to pay back its debt if Net debt and Adjusted EBITDA are held constant. The Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.	Net debt divided by Adjusted EBITDA. Expressed as a multiple.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's available liquidity and the Group's ability to manage its current obligations. It shows the value of cash available to the Group in a short period of time.	Total cash and cash equivalents plus the value of the Group's committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers trade receivable factoring facility).
Cost of production	Cost of sales	A key metric showing the cost of produced biomass. Also, a key metric in monitoring the Group's strategy to reduce biomass costs.	Costs of sales attributable to biomass production plus an allocation of operating expenses not directly attributable to biomass production, divided by tonnes of biomass produced. Expressed as a cost per tonne produced.
Capital expenditure	Property, plant and equipment (PPE) additions and intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus intangible asset additions.

(1) Operating profit is presented on the Group's Consolidated income statement; however, it is not defined per IFRS. It is a generally accepted measure of profit.

Glossary

Ancillary services
Services provided to National Grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black start contracts. They are described in Connection Condition 8 of the Grid Code.

Availability
Average percentage of time the units were available for generation.

BECCS
Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

BEIS
The UK Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy science, innovation, energy and climate change.

In February 2023, BEIS was split into three new departments: the Department for Business and Trade, the Department for Energy Security and Net Zero, and the Department for Science, Innovation and Technology.

Black start
Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

Biogenic carbon cycle
Biogenic refers to something that is produced by, or originates from, a living organism. The biogenic carbon cycle is the natural process of plants and animals releasing CO_2 into the atmosphere through respiration and decomposition, and plants absorbing CO_2 via photosynthesis.

Biomass
Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. The Group uses low-grade roundwood, sawmill residues and forest residues in the form of compressed wood pellets, to generate electricity at Drax Power station or sell the pellets to third-parties.

Capacity Market
Part of the UK Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

Carbon capture and storage (CCS)
The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

CCC
The UK's Climate Change Committee.

Clear-cutting
An important forest regeneration technique that supports sustainable forest management. It happens when most (or all) trees in an area are harvested simultaneously. It is a well-established forestry practice in many regions, including the UK, Europe and North America.

Contracts for Difference (CfD)
A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the 'strike price'. Generators will receive revenue from selling their electricity into the market as usual, however, when the market reference price is below the strike price, they also receive a top-up payment for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

Combined Cycle Gas Turbines (CCGT)
A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

Dispatchable power
An electricity generator produces dispatchable power when the power can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be dispatchable power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient dispatchable power to operate and remain safe.

EBRS
The UK Government's Energy Bill Relief Scheme.

ESG
Environmental, Social and Governance.

First Nations
Any of the groups of indigenous peoples in Canada.

Forced outage/Unplanned outage
Any reduction in plant availability, excluding planned outages.

FSC®
Forest Stewardship Council: an international non-governmental organisation which promotes responsible management of the world's forests.

Frequency response
The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz.

GHG
Greenhouse Gas.

Grid charges
Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

Headroom and footroom
Positive 'reserve' (see below) may be termed headroom and negative reserve as footroom.

Glossary continued

IAB
Independent Advisory Board, comprising scientists, academics, and forestry experts who provide independent challenge, insight and advice into the Group's activities.

IFRS
International Financial Reporting Standards.

Inertia
The stored energy in the large rotating mass of a generator, which assists in maintaining system stability. Wind and solar power sources have no inertia.

Lost Time Incident Rate (LTIR)
The frequency rate is calculated on the following basis: (fatalities and lost time injuries)/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

NGO
Non-governmental organisation.

Open Cycle Gas Turbine (OCGT)
A free-standing gas turbine, using compressed air, to generate electricity.

Planned outage
A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

PEFC
Programme for the Endorsement of Forest Certifications: an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification.

Pulp wood
A low value and bulky product, generally produced from the top of trees or from production thinnings, with the principal use of making wood pulp for paper production.

Rebasing
Rebasing is when the Group releases cash from an open derivative contract that is in a mark-to-market asset position by modifying the rate per the contract. A cash payment equivalent to the reduction in the mark-to-market asset is received by the Group from the counterparty, less any applicable fees.

Reserve
Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

Response
Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

ROC
A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

Sawlog
A felled tree trunk suitable for being processed at a sawmill for cutting up into lumber.

SBP
Sustainable Biomass Program: a certification system designed for woody biomass used in industrial energy production.

Summer
The calendar months April to September.

Sustainable biomass
Biomass which complies with the definition of "sustainable source", Schedule 3, Land Criteria, UK Renewables Obligation Order 2015.

System operator
National Grid Electricity Transmission. Responsible for the co-ordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

TCFD
Taskforce on Climate-related Financial Disclosures.

Thinning
Thinning operations correct overcrowding, and improve the health and vigour of those trees which remain. Thinning targets small, malformed, and diseased trees for removal, allowing the healthier trees the space, light, and soil to reach maturity sooner. Thinning also mitigates the risk of pest infestation and wildfire, while speeding the development of a more mature forest with increased plant diversity.

Total recordable incident rate (TRIR)
The frequency rate is calculated on the following basis: (fatalities, lost time injuries and worse than first aid injuries)/hours worked x 100,000.

Total results
Financial performance measures prefixed with 'Total' are calculated in accordance with IFRS.

UK ETS
The UK Emissions Trading Scheme is a mechanism introduced across the UK to reduce carbon emissions; the scheme is capable of being extended to cover all greenhouse gas emissions.

Voltage control/reactive power
Maintenance of voltage within specified limits in order to 'push' power around the system to maintain safety and stability.

Winter
The calendar months October to March.

Company information

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[redacted]

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Group Company Secretary

Brett Gladden

Enquiry e-mail address

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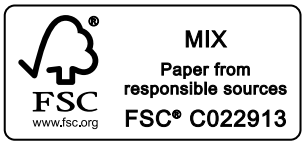

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Design and production

CONRAN DESIGN GROUP

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This Annual Report and Accounts may contain certain statements, expectations, statistics, projections and other information that are, or may be, forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs, and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

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